IRS e-file

ELECTRONIC
TAX ADMINISTRATION

A Strategy
For Growth

Contents

Introduction

SUMMARY OF CHANGES

In December 1998, the Internal Revenue Service (IRS) issued for public comment its first-ever version of "A Strategy for Growth" to articulate Electronic Tax Administration's (ETA) mission, goals and strategies for revolutionizing how taxpayers transact and communicate with the IRS. As required by the IRS Restructuring and Reform Act of 1998, the Strategic Plan was designed to eliminate barriers, provide incentives and use competitive market forces to make significant progress toward:

1) the overriding goal of 80 percent of all tax and information returns being filed electronically by 2007, and

2) the interim goal that, to the extent practicable, all returns prepared electronically should be filed electronically by 2003.

This first annual update to the Strategic Plan for ETA reflects the significant developments that have occurred over the past year and is consistent with the proposed changes to the Paperwork Reduction Act to minimize the burden of federal paperwork demands through the sponsorship and use of alternative information technologies. The Strategic Plan has been revised to address the recommendations contained in the Electronic Tax Administration Advisory Committee's (ETAAC) June 1999 report to Congress, as well as suggestions made by the Council for Electronic Revenue Communication Advancement, Inc. (CERCA), the Federation of Tax Administrators (FTA), and the Service Bureau Consortium. Based on these comments, increased emphasis has been placed on:

■ instituting a strategic planning process for ETA;
■ ensuring that ETA's strategic plan is integrated with Servicewide planning and budgeting processes;
■ clarifying ETA's strategic goals and establishing intermediate goals for 2003 consistent with IRS' Balanced Measurement System;
■ drafting an ETA vision statement;
■ refining ETA's schedule for products and services and identifying ETA Modernization releases;
■ evaluating ETA's accomplishments and pilots during the 1999 filing season;
■ providing updated information on taxpayer satisfaction, attitudes and demographics; and
■ revising the projections of IRS *e-file* returns.

ETA will continue to work with its stakeholders to further refine the strategic plan, including delineating the respective roles that the private and public sectors will play in designing and delivering products and services that will enable taxpayers to conduct all of their interactions with the IRS electronically.

Substantial Progress was made in1999

A Record Number of Taxpayers Chose IRS *e-file:* 1999 turned out to be another solid year for Electronic Tax Administration as more taxpayers than ever before enjoyed the benefits of filing electronically including faster refunds, more accurate returns, and quick confirmation of filing. During 1999, a record-setting 29.3 million individual taxpayers, or 19 percent more than the prior year, filed using one of the three convenient *e-file* options.

- 21.2 million taxpayers *e-filed* their tax returns electronically through an IRS-authorized Electronic Return Originator (ERO); a 19.9 percent increase over the same period last year.
- On-Line filing skyrocketed with 2.5 million taxpayers filing their tax returns on-line via their home computer through a third party transmitter; a 161 percent increase over last year.
- 5.7 million taxpayers filed their returns over the telephone using the award winning TeleFile system, which was down slightly from the prior year due to the shift to computer filings and the effect of new tax credits. New for 1999 — over 106,000 taxpayers in Indiana and Kentucky could file both their federal and state returns in a single telephone call during the pilot of the first Federal/State TeleFile option.
- In addition, over 8.5 million taxpayers filed both their federal and state tax returns simultaneously in a single electronic transmission. During 1999, 35 states and the District of Columbia participated in the Federal/State program.

Paperless Filing for over One Million Taxpayers: In 1999, the IRS conducted two pilots which provided a paperless filing experience for over one million taxpayers. These pilots involved the use of Personal Identification Numbers (PIN) as the taxpayer's signature, eliminating the need to file the paper jurat.

- 660,209 taxpayers participated in the On-Line ECN Pilot where the IRS distributed e-file Customer Numbers to taxpayers who prepared their own returns using tax preparation software to file from their home computers.
- 499,606 taxpayers participated in the Practitioner PIN Pilot where taxpayers selected a PIN when filing through 2,500 participating practitioners.

Progress

1999 vs 1998:
19 percent increase
in Form 1040
IRS *e-file* receipts,
totaling 29.3 million

Thousands More Paid Electronically: Also new for 1999, taxpayers filing balance due returns had several options for not only filing electronically, but paying electronically as well.

- 76,125 taxpayers filing balance due returns paid by authorizing either their checking or savings to be debited as part of their electronic return. Taxpayers could file early and have the debit occur as late as April 15th.
- Taxpayers made 53,309 tax payments using credit cards as part of two pilots that the IRS conducted in 1999. Under the first pilot, US Audiotex (San Ramon, CA) processed credit card payments over the telephone. In the second pilot, individuals using Intuit's (Mountain View, CA) TurboTax or MacInTax software to *e-file* from their computers were able to use their Discover Card to pay the balance owed to the IRS.

Use of the IRS Web Site Skyrocketed: An increasing number of taxpayers are discovering that the IRS home page on the World Wide Web (www.irs.gov) is an excellent and convenient source for tax forms and tax information.

- IRS Web site hits exceeded 1 billion for the first time ever during Fiscal Year 1999, nearly doubling last year's volume.
- The Small Business Corner on the IRS Web site was inaugurated this year benefitting over 23 million small business taxpayers and the 800,000 start-up businesses begun each year with information and downloadable forms.
- The IRS also created a new page, "What's Hot", that can be accessed from its Web site to alert taxpayers and practitioners about current problems and issues that could affect them.
- The IRS developed a new World Wide Web application that allows taxpayers to search, by zip code, for the closest authorized *e-file* provider.

Businesses Also Enjoyed the Benefits of Electronic Filing and Payment: In addition to the Small Business Corner, a wide range of electronic filing and payment options were also available to businesses in 1999. For example:

- Taxpayers have made nearly $2.9 trillion in tax deposits electronically since the government established the Electronic Federal Tax Payment System (EFTPS) in November 1996. 2.6 million businesses including two million volunteers are now enrolled in the Hammer Award winning EFTPS system which allows taxpayers to make their federal tax deposits over the telephone or using a personal computer, eliminating the need for paper deposit coupons, checks, or trips to the bank. During FY1999, taxpayers made over $1.3 trillion in tax deposits through EFTPS which accounts for over 89 percent of all federal tax deposits.
- During Calendar Year 1998, a total of 756,080 quarterly employment tax returns were filed over the telephone by small businesses, in addition to 856,579 Forms 941 that were filed electronically by payroll service providers. For Calendar Year 1999, receipts are expected to increase to 952,600 and 1,304,300 respectively.
- Under the Simplified Tax and Wage Reporting System (STAWRS), another Hammer Award winning program, the IRS is working with other federal agencies, state governments, private sector employers, and professional associations to reduce employer burden by conducting single point filing projects in the states of Iowa and Montana, establishing a Harmonized Wage Code database, and improving customer service.

Further Improvements are in Store for 2000

Although the IRS has made preparing for Y2K a top priority, developmental activities for Electronic Tax Administration have not stood still. Individuals, businesses and practitioners will still see many improvements in 2000.

New for Individuals:

- More individual taxpayers will be able to file totally paperless returns in 2000 as the IRS expands its Practitioner PIN pilot to include more preparers and also continues the On-Line ECN Pilot.
- More electronic payment options will be made available to taxpayers including accepting debit payments through TeleFile and accepting credit cards for Forms 1040ES, estimated tax payments, and Forms 4868, extensions of time to file.
- More forms and schedules including Schedule J, Farm Income Averaging, and Forms 8271, Investor Reporting of Tax Shelter Registration Number, 8582-CR, Passive Activity Gains, 6781, Gains and Losses from Section 1256, Contracts and Straddles, and 8586, Low Income Housing Credit, will be accepted through IRS *e-file* making the program available to more taxpayers.

New for Businesses:

- Employers will have the added option of filing their quarterly Forms 941 from their office computer, in addition to current methods.
- Payors who electronically transmit information returns to the IRS will have an extra month — from February 28 to March 31 — to file over IRS' new system, Filing Information Returns Electronically (FIRE).
- Partnerships will be able to file Forms 1065 and related Schedule K-1s electronically beginning in March. The mandate for large partnerships with more than 100 partners to file electronically will not be imposed until 2001.
- EFTPS will launch an Internet Web site to allow paperless enrollment, on-line payments, on-line account research and customer service.

New for Practitioners:

- The IRS will begin piloting an Accounts Management Program to service the needs of Electronic Return Originators (EROs), financial institutions, large and small employers, and payroll service providers who distribute ETA products and services to taxpayers.
- Through the Request for Agreement (RFA) process, selected tax professionals will be participating in the debt indicator pilot.

OUTLOOK

Individuals, businesses
and practitioners
will see many
improvements in 2000.

Strategy

The IRS must formulate
a broader strategy for
electronic service
delivery that builds
products and services
through alliances with
private industry.

More Needs to be Done

Despite these and other encouraging signs, the public's use and acceptance of electronic alternatives to paper have not grown as rapidly as once hoped and the potential application of electronic service delivery has surpassed earlier expectations. As the National Commission on Restructuring the IRS noted in its June 1997 report, many of the current programs and systems have limited appeal to certain taxpayers or practitioners. The Commission concluded that no single modification will change taxpayer or practitioner behavior and that a comprehensive plan to remove barriers, increase benefits and broaden the appeal of electronic transactions to all segments of the taxpayer and practitioner population is essential. To address these concerns, the IRS established the following priorities. (Please note that additional information on IRS priorities for Electronic Tax Administration can be found beginning on page 20.)

- To continue to build the foundation — the technical infrastructure, marketing and channel management, management improvements, and electronic information services — necessary to support significant growth in electronic transactions and communications in the future; and
- To offer innovative products and services that are simple, inexpensive and trusted in such key areas as individual income tax, other business returns, payroll tax and electronic payments. In the future, the IRS will be realigning these products and services with the four business units being established under IRS' Modernization Redesign.

The IRS recognizes that it cannot make this plan a reality on its own. In order to revolutionize Electronic Tax Administration, it must embark on a new stage in its relationship with external stakeholders to formulate a broader strategy for electronic service delivery that builds products and services through alliances with private industry. An important step in this process is to clearly articulate ETA's mission and strategies for the future.

Mission, Vision Statement, Goals and Key Strategies

The purpose of Electronic Tax Administration is to revolutionize how taxpayers transact and communicate with the IRS.

Electronic Tax Administration is critical to the overall Mission of the IRS which is to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. ETA fully supports IRS' overall plans for the future and the strategic goals of:

- Service to each taxpayer
- Service to all taxpayers
- Productivity through a quality work environment

The IRS' continuing reliance on resource-intensive processes for interacting with taxpayers is costly for both the taxpaying public and the federal government. Within an increasingly constrained budget, these paper-bound and error-prone processes divert critical resources from other areas of tax administration, especially customer service and compliance. Incremental approaches are no longer acceptable solutions for solving this problem. Bold and innovative steps must be taken to revolutionize how taxpayers transact and communicate with the IRS, including how they file their tax returns, pay what is owed, and receive the assistance and information that they need to comply with the tax laws.

Vision Statement

As the institution entrusted to help the taxpaying public understand and meet their tax responsibilities, the IRS will ease taxpayer burden by responding to different customer needs and providing customer choice. Through the use of IRS e-services, developed in conjunction with customers and value adding third parties, ETA will:

- Foster the creation and marketing of easy to use electronic products and services, targeted at specific customer segments, which inform, educate and service the taxpaying public.
- Provide the taxpaying public the ability to easily, yet securely, conduct all of their interactions with the Service electronically.
- Provide electronically based customer accounts management capabilities to all of our business, individual and other customers and their authorized representatives.
- On a continuous basis, electronically collect from and disseminate tax related information to payors, such as employers, and other tax authorities.

Goals

The IRS' Electronic
Tax Administration
strategic goals for
2007 are ambitious.

Strategic Goals

The IRS' Electronic Tax Administration strategic goals for 2007 are ambitious. As recommended by both the ETAAC and CERCA, the intermediate goals for 2003 have been added to the Strategic Plan in order to establish a yardstick for determining whether the IRS is on track. (See Table 1.) ETA's intermediate and strategic goals are consistent with the Balanced Measurement System which the IRS is currently putting into effect to modernize the Agency and to reflect the Service's priorities, as articulated in the mission statement. The Balanced Measurement System is a core management tool with a set of balanced measures in three major elements — Customer Satisfaction, Employee Satisfaction and Business Results — with Business Results being comprised of measures of Quality and Quantity and Outreach. Each element represents an important aspect of IRS' overall goals and each is of equal importance in carrying out ETA's programs and functions.

TABLE 1

Intermediate and Strategic Goals

Intermediate Goals for 2003	Strategic Goals for 2007
Electronically file all returns that are prepared electronically (60 percent)	Electronically transact with 80 percent of U.S. taxpayers
Reduce fully burdened IRS per return electronic transaction cost to less than than $3.50 (in 1996 dollars)	Reduce fully burdened IRS per return electronic transaction cost to less than $2 (in 1996 dollars)
Achieve 99 percent transaction integrity and internal processing accuracy	Achieve 99.9 percent transaction integrity and internal processing accuracy
Achieve 80 percent taxpayer satisfaction	Achieve 90 percent taxpayer satisfaction
Achieve 80 percent distributor satisfaction	Achieve 90 percent distributor satisfaction
Achieve 70 percent employee satisfaction	Achieve 90 percent employee satisfaction

The following is a brief description of each of the strategic goals along with a crosswalk to the seven key strategies that will enable the IRS to accomplish these goals.

Electronically transact with 80 percent of U.S. taxpayers

1.) Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing.

2.) Substantially increase taxpayer access to electronic filing, payment, and communication products and services.

In developing this goal, the IRS has taken into account the IRS Restructuring and Reform Act which established the objective that 80 percent of all tax and information returns should be filed electronically by 2007. (The IRS interprets this goal to mean 80 percent of all tax

returns and 80 percent of all information returns as opposed to 80 percent of the combined total.) In addition to the emphasis that has been placed on electronic filing, other important transactions that taxpayers have with the IRS have been considered in developing this strategic goal. These include how taxpayers pay what is owed, such as their use of EFTPS, debit or credit card options, and how they receive the information and assistance they need to comply with the tax laws, such as their use of the IRS home page to access tax forms and tax information. By expanding the scope of this objective to cover all aspects of Electronic Tax Administration, the IRS believes that it has developed a strategic goal that lays the foundation for additional growth beyond 2007. As taxpayers become more comfortable and satisfied with a specific aspect of Electronic Tax Administration, the more likely they will also begin using other products and services as well.

In the IRS Restructuring and Reform Act of 1998, Congress also established the intermediate goal that, to the extent practicable, all returns prepared electronically should be filed electronically for taxable years beginning after 2001 — or in other words by 2003. Since approximately 60 percent of all individual tax returns are prepared electronically, this establishes a formidable intermediate goal of approximately 80 million returns being filed electronically by 2003. Reaching this target will be difficult. IRS currently receives only 23 percent of all individual income tax returns electronically. As illustrated further in Appendix E, IRS projects an *e-file* volume in 2003 of approximately 44-49 million returns (*33-37 percent of all individual tax returns*) which will fall short of the intermediate goal.

Reduce fully burdened IRS per return electronic transaction cost to less than $2 (in 1996 dollars)
4.) Substantially reduce IRS electronic filing per return processing costs.

The IRS recently estimated its per unit cost for electronically-filed individual income tax returns at $4.14 which is based on a volume of approximately 30 million electronically filed returns in Fiscal Year 1999. The comparable per unit cost for paper returns was $4.28. As electronic filing volumes continue to increase in the future as they have recently, the IRS will be able to amortize its fixed costs to support electronic filing over these greater volumes which will cause the per return cost to decline. The IRS also has underway a number of cost reduction strategies that will help drive the cost of electronic filing even lower. Deploying an authentication approach, enabling debit and credit card payments, automating the ERO application and suitability processes, and consolidating and modernizing service center assets are examples of initiatives that will help reduce ETA per return costs to less than $3.50 in 2003 and to less than $2.00 by 2007. As discussed further under the Challenges section, these initiatives should also help to drive down *e-file* costs for both EROs and taxpayers.

Achieve 99.9 percent transaction integrity and internal processing accuracy

3.) Aggressively protect transaction integrity and internal processing accuracy.

The IRS strives to provide the highest quality ETA products and services to both its customers and its distributors. Taking into account comments made by the ETAAC, the IRS has raised this goal from "achieve 99 percent transaction integrity and accuracy" to "achieve 99.9 percent transaction integrity and internal processing accuracy." The IRS has consistently achieved an accuracy rate for electronically filed returns of approximately 99 percent and it plans to aggressively protect transaction integrity and internal processing accuracy to a level higher than 99 percent by managing to a near zero errors and loss basis. To achieve this goal, the IRS will continue to work with practitioners and software developers in a true give-and-take forum to substantially reduce user-originated electronic filing and payment reject rates. An accuracy rate of 99.2 percent was achieved in 1999.

Achieve 90 percent taxpayer satisfaction

1.) Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing.

5.) Deliver the highest quality products and services as promised.

6.) Seek the best people, ideas and partners to ensure success.

The IRS recognizes that taxpayers are its service consumers. Working in conjunction with its partners in both the public and private sectors, it must gain greater insight into the needs of taxpayers in order to provide ETA products and services that are so simple, inexpensive and trusted that they will be preferred to the traditional methods of calling and mailing. The IRS must rethink its entire approach for developing and delivering products and services to taxpayers. It must clearly designate within its own organization employees who will champion the causes of wage earners, small businesses and self-employed individuals, large corporations, employee plans, exempt organizations and state and local governments. In order to gauge its progress in this area, the IRS adopted an intermediate goal of 80 percent of all taxpayers in 2003 and a strategic goal of 90 percent of all taxpayers in 2007 as being satisfied with the ETA products and services that are available to them.

The results from the customer satisfaction surveys to date have already exceeded IRS' initial expectations. The June 1999 taxpayer *e-file* satisfaction survey conducted by Russell Marketing Research, Inc. on IRS' behalf indicated that taxpayers reported high satisfaction (very satisfied) with *e-file* products ranging from 75 percent for practitioner *e-file,* 84 percent for On-Line filing and 85 percent for TeleFile. Adding those who are somewhat satisfied raises the scores to 95 percent, 97 percent and 99 percent respectively. These findings are confirmed by the President's Management Council (PMC) Customer Satisfaction Results which found that the satisfaction levels for IRS *e-file* exceeded the index scores for the government sector, as well as for the retail sector.

Service

The IRS strives to provide the highest quality ETA products and services.

Achieve 90 percent distributor satisfaction

2.) Substantially increase taxpayer access to electronic filing, payment, and communication products and services.

5.) Deliver the highest quality products and services as promised.

6.) Seek the best people, ideas and partners to ensure success.

The IRS recognizes the important role that its distributors (tax practitioners, payroll service providers, reporting agents, etc.) play in Electronic Tax Administration. In support of this vital channel, ETA will seek to support its distributors with national advertising, promotional kits, education and training, management information systems and various product and service incentives depending on their success in marketing ETA products and services. A field based accounts management program, as well as a National Accounts Program for large volume generators, is being established to ensure that all distributors receive the services, information and incentives they need to be effective. Here again, the goal is to have 80 percent of the distributors by 2003 and 90 percent of the distributors by 2007 rate themselves as being satisfied. In order to begin to establish a baseline for distributor satisfaction, the IRS conducted an ERO satisfaction survey at the completion of the 1999 filing season. The results indicate that participating EROs see clear advantages in using the IRS *e-file* program including speed, accuracy and customer satisfaction.

Distributors reported high satisfaction (very satisfied) with *e-file* products ranging from 75 percent for practitioner *e-file,* 70 percent for On-Line filing and 63 percent for TeleFile. Adding those who are somewhat satisfied raises the scores to 95 percent, 92 percent and 86 percent respectively.

Achieve 90 percent employee satisfaction

7.) Create a work environment where employees and partners are skilled, informed and empowered to succeed.

Recognizing that employee satisfaction is critical to the success of Electronic Tax Administration, ETA has adopted the private sector benchmark of 90 percent of its employees being either very satisfied or else satisfied on a five point scale with their job and working environment. An intermediate goal of 70 percent has been established for 2003. The results from Survey 99, the most recent employee survey, indicated that ETA exceeded IRS ratings for training, empowerment, quality and management effectiveness, but that improvement was needed in such areas as resources, communication and performance management. Overall, the scores for the twelve employee satisfaction indexes ranged from a low of 55 percent to a high of 74 percent. Initiatives to increase employee satisfaction are underway including employee communications, training programs, and an innovative awards program. In addition, all managers are required to take action based on the Survey 99 feedback from their work groups; these actions will become part of the manager's expectations for FY2000.

The IRS also recognizes the important role that its distributors play in Electronic Tax Administration.

Key Strategies

In conclusion, the IRS will accomplish its mission for Electronic Tax Administration and achieve its goals through seven key strategies. Business goals for each of these strategies can be found in Appendix C.

1.) Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing;

2.) Substantially increase taxpayer access to electronic filing, payment, and communication products and services;

3.) Aggressively protect transaction integrity and internal processing accuracy;

4.) Substantially reduce IRS electronic filing per return processing costs;

5.) Deliver the highest quality products and services as promised;

6.) Seek the best people, ideas and partners to ensure success; and

7.) Create a work environment where employees and partners are skilled, informed and empowered to succeed.

Market Opportunities

The prospects for the IRS accomplishing its mission for ETA are promising given the considerable market opportunities that exist. The combination of two key factors demonstrates the potential for significant growth in the years ahead. First, the size of the potential ETA market — nearly every individual and business in this country — is enormous. Second, both individuals and businesses are becoming more comfortable with technology, although it is clear that future inroads will be heavily dependent on the availability of practical applications that have utility in peoples' lives.

The IRS is the Largest Processor of Information in the World, but the System is Still Bound by Paper

The IRS receives well over 200 million tax returns and over 1 billion information returns, issues 88 million individual refunds, answers over 110 million assistance calls and collects $1.7 trillion annually. Some of these transactions occur electronically, but the majority do not. For example:

- Only 1 out of every 4 individual tax returns is filed electronically and less than 40,000 of the approximately 10 million individual extensions are filed electronically;
- Only 130 thousand of approximately 30 million remittances that accompany balance due individual returns are received electronically;
- Only 1 in 8 employment tax returns is filed electronically or via magnetic media;
- Only 1 in 3 fiduciary returns is filed electronically along with 1.3 million electronically filed Schedule K-1s;
- None of the 1.9 million partnership returns were filed electronically in 1999, but the IRS did process electronically in excess of 2 million partnership Schedule K-1s; and
- None of the 5.2 million corporation returns are filed electronically, nor are the 2.6 million corporate extensions.

Opportunities for growth in Electronic Tax Administration are also evident in the tax preparer community which prepares 1 out of every 2 individual income tax returns. However, only 1 out of every 3 tax returns that is prepared electronically by paid preparers is filed electronically.

The Public's Use of Technology has Grown, but Future Inroads will Depend on Applications that have Utility in People's Lives

In addition to the enormous opportunities reflected in the above statistics, there are other positive signs which indicate the potential for significant breakthroughs in Electronic Tax Administration. Overall, the United States is experiencing growth in alternative information and payment strategies. In-person and paper-based methods are slowly giving way to electronic means. For example:

■ Approximately 40 million households have access to the Internet and access is projected to grow to 60 million households by 2003.

■ Over 80 million Americans are actually using the Internet.

■ The growth rate of the Internet has by far exceeded other technologies; for example, it took the Internet less than seven years to reach 30 percent penetration level compared to 38 years for the telephone, 17 years for television, and 13 years for personal computers.

■ PC services are becoming less expensive or even free. Certain tax software companies offered free electronic filing for the first time in 1999. Many financial institutions also distribute free software to account holders who want to do their banking by personal computer.

■ Industry watchers predict that a growing number of U.S. households will do their banking on-line — whether through a dial-up connection direct to their bank or through the Internet. In 1999, an estimated 5.3 million households have access to online financial services such as banking and stock trading.

■ U.S. shoppers spent $7.8 billion online in 1998, nearly three times what they spent online the previous year.

■ Business taxpayers are far more technologically enabled than individuals. At least one 1999 study indicates that e-mail is becoming the dominant mode of business communication and is becoming even more important as a business tool than the traditional voice telephone.

While it is clear that these factors signal the opportunity for substantial growth in Electronic Tax Administration, findings from the ETA Taxpayer Attitudinal Studies conducted for the IRS by Russell Marketing Research, Inc. in 1998 and updated in 1999 indicate that although attitudes are improving, taxpayers are still ambivalent toward technology — accepting it conceptually and in some everyday forms, but are still wary of it — particularly when it comes to personal finances. Consequently, the challenge for the IRS, in conjunction with the private sector, is to develop products and services that are so simple, inexpensive and trusted that taxpayers will prefer these to the traditional methods of calling and mailing.

POTENTIAL

Overall, the United States is experiencing growth in alternative information and payment strategies. In-person and paper-based methods are slowly giving way to electronic means.

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4 # Challenges

Although the opportunities for Electronic Tax Administration are considerable so too are the challenges. Significant barriers must be overcome in such areas as the ETA computing infrastructure, product and service cost and complexity, taxpayer suspicions, security and privacy, and clarification of ETA ownership and accountability.

Technical Infrastructure

IRS' legacy systems are not suited for the challenges that lie ahead. Consequently, within the framework of the Modernization Blueprint the IRS is taking the necessary steps to ensure that the computing infrastructure for Electronic Tax Administration can handle the expected demands of the future. Not only does the IRS expect a significant increase in the number of EROs and in the volume of returns that they transmit electronically, but it also envisions developing many new products and services which will enable individual taxpayers and businesses to transact and communicate directly with the IRS. Toward that end, last year the IRS awarded a PRIME contract to Computer Sciences Corporation and a team of leading technology and consulting firms to be major partners in managing the modernization of IRS' core business and technology systems with near-term focus on improved phone service and electronic filing options. Key stakeholders including industry leaders, major firms and organizations will be kept apprised of IRS' progress in rebuilding its infrastructure because of the important role that they play in the success of Electronic Tax Administration.

Product and Service Cost and Complexity

The IRS cannot expect to achieve its goals for Electronic Tax Administration unless electronic filing becomes simpler and less expensive than mailing paper returns for both practitioners and taxpayers. Right now, it is not. Although the IRS has been continually expanding the electronic filing program, some forms and schedules are still not accepted, which prevents certain taxpayers from participating. In addition, paper, in terms of the signature jurat, W-2s and other forms, is still part of the electronic filing system. These factors drive up the practitioner's costs of preparing and transmitting electronic returns which unfortunately are passed onto the consumer — the American taxpayer. Steps must be taken to simplify the system and to make it more convenient and cheaper to use for both practitioners and taxpayers.

Taxpayer Suspicions

One significant barrier that must be overcome is the public's perception that there is a greater chance that they will be contacted or audited by the IRS if they file electronically. This is not true. Electronically filed returns have proven to be more accurate than paper returns which reduces the likelihood of contact by the IRS to resolve errors. Furthermore, the IRS' audit selection criteria does not take into account whether a return was filed electronically or by paper. Although these suspicions are unfounded, the IRS is taking proactive steps to dispel these concerns and to build taxpayers' trust and confidence in its new systems. First, by conducting market research studies the IRS is gaining a better appreciation of taxpayer attitudes towards Electronic Tax Administration. Second, the marketing campaigns for IRS *e-file* communicate the important messages that taxpayers who file electronically have fewer hassles, fewer contacts with the IRS, and faster refunds than if they file on paper. Indeed, statistics show that taxpayers who prepare their returns by hand and file on paper are 40 times more likely to receive a subsequent contact from the IRS than those who use a computer and *e-file*. As the ETAAC noted in its June 1999 report to Congress, building confidence and trust in IRS *e-file* is a marketing challenge that must be supported by communicating its benefits, successes and ease.

Security and Privacy

Many taxpayers also have concerns about the security and privacy of electronic transactions with the IRS. The IRS must demonstrate through its word and deed — through both the messages that it conveys in its marketing campaign as well as through the systems that it develops, implements and maintains — that the security and integrity of its electronic systems and the confidentiality of taxpayer information are among the most important responsibilities that it has to the American people. While the IRS is expanding its capabilities to receive tax information electronically, it must also enhance its capabilities for safeguarding taxpayer information, as well as putting in place the mechanisms needed to prevent those who would attempt to gain access to the system inappropriately. Toward this end, the IRS issued its draft Electronic Authentication Principles and Strategy in 1998. While IRS' long-term approach to establishing the validity of claimed identity in electronic transactions between the IRS and the public will involve Public Key Infrastructure technology, over the next several years the IRS will pursue Personal Identification Numbers (PINs) through encrypted transactions over the Internet. Furthermore, ETA systems will be designed and implemented in compliance with security certification and accreditation guidelines and the use of NIST security standards appropriate to evolving activities. ETA also recognizes that taxpayer's privacy is protected by designing programs that collect and maintain the minimum amount of taxpayer information necessary to accomplish tax administration purposes.

The IRS took an
important step toward
clarifying the
responsibilities for
Electronic Tax
Administration by
establishing a new
organization headed
by an Assistant
Commissioner.

Ownership and Accountability

In the past, the Administration, Congress and other external stakeholders have expressed frustration at the lack of a focal point for Electronic Tax Administration activities within the IRS. In 1997, the IRS took an important step toward clarifying the responsibilities for Electronic Tax Administration by establishing a new organization headed by an Assistant Commissioner devoted exclusively to the management of existing and planned programs. Further centralization occurred in 1998 with the transfer of the EFTPS and STAWRS programs to Electronic Tax Administration. In partnership with the National Treasury Employees Union, this year Electronic Tax Administration is being reorganized to better support the delivery of the Strategic Plan and also to facilitate transition into the Commissioner's restructuring initiative. In addition to realigning the existing two Divisions to more closely parallel the new business units, ETA established a Modernization Program Office to coordinate the ETA information technology capabilities to be delivered by the PRIME Alliance and also created an Accounts Management Division. The IRS will continue to examine the role and scope of Electronic Tax Administration to ensure that it has the appropriate level of control over the agency's various electronic programs and also the appropriate authority to respond quickly to rapid changes in the electronic commerce marketplace. The IRS recognizes, however, that there are risks associated with meeting its strategic goals for ETA given the time that is needed for a relatively new organization to formalize its existing working relationships and also to establish new and untested partnerships with the private sector.

Priorities

ETA's priorities for the future are twofold. First, it must continue to build the foundation – the technical infrastructure, marketing and channel management, management improvements, and electronic information services — necessary to support significant growth in the years ahead. Second, it must sustain Electronic Tax Administration's tactical momentum by offering innovative products and services to the public that are simple, inexpensive and trusted. These priorities represent a cross-strategy compilation of the initiatives derived from ETA's seven key strategies and their attendant goals.

Building the Foundation

Technical Infrastructure:

The IRS is undertaking a wide range of initiatives to enhance the technical capabilities of ETA including awarding the PRIME contract, exploring the use of the internet for account related transactions, developing a taxpayer and tax preparer authentication approach, undertaking a return free study, consolidating processing operations at fewer sites, and supporting the IRS' Revenue Protection Strategy.

PRIME Alliance: Since the current legacy environment severely limits the potential for new product development, building the technical infrastructure required to support electronic business practices is critical to the future success of Electronic Tax Administration. The IRS took a major step in this direction when it awarded the PRIME contract last December and identified Electronic Tax Administration as a top Modernization priority, including ETA among the early releases as indicated below:

■ Subrelease 2.1 will provide the up-to-date authentication data base to support electronic filing, payment and communications
■ Subrelease 2.1 will provide the security infrastructure for "transactional" Internet business applications
■ Subrelease 1.2 will enable first transactional self-service applications for taxpayers on the Internet
■ The ETA Subrelease will enable new business functionality to complement IRS' legacy capabilities and leverage new security infrastructure

Prime Alliance

The IRS has identified Electronic Tax Administration as a top Modernization priority.

Activities are already underway to synchronize the ETA Strategic Plan and the Modernization Plan. ETA has established a Modernization Executive Office to ensure the effective planning, development and delivery of information technology by the PRIME Alliance in support of "A Strategy for Growth." In addition, an integrated product team (IPT) made up of IRS, PRIME Alliance and Federally Funded Research and Development Center (FFRDC) business and Information Systems subject matter experts was established to validate requirements. The IPT has reviewed existing plans and documents using the Enterprise Life Cycle as a benchmark for completeness, with the analysis resulting in a business case for the ETA Modernization subreleases. As illustrated in Appendix B, the first increment of ETA functionality will be available in 2001. Future increments will provide greater capacity and capabilities and will facilitate such initiatives as electronic account resolution and the acceptance of more forms and schedules.

Internet Capabilities: As evidenced by the early Modernization releases illustrated above, the IRS is positioning itself to take full advantage of the public's growing acceptance and use of the Internet. The IRS' hugely successful home page and e-mail customer service initiative for handling taxpayer inquires and responses are only the tip of the iceberg. An EFTPS Internet site will be the next crucial step to meeting customer expectations and Congressionally mandated goals. A number of other taxpayer transactions, especially those performed over the telephone, are also strong candidates for the Internet, as are all future IRS customer services. Additional security and privacy will be put in place before the IRS moves from using the Internet to provide information to using the Internet to perform account-related transactions.

Authentication: For years, the major criticism of the electronic filing program has been that it is not paperless. Feedback from the practitioner community indicates that this change alone will significantly increase the willingness of tax preparers to file returns electronically. The IRS has developed and published an authentication strategy which will guide its future efforts in this area and conducted two pilots during the 1999 filing season which provided a paperless filing experience for over a million taxpayers. These pilots, which will be expanded for the 2000 filing season, included the use of a Personal Identification Number (PIN) as the taxpayer's signature, thus eliminating the need to file the paper signature jurat. One pilot involved taxpayers filing from their home PCs, while the other targeted the practitioner market.

- For the 1040 On-Line ECN Pilot, the IRS distributed over 12 million *e-file* Customer Numbers (ECN) to 8 million households who prepare their own returns using tax preparation software. During the pilot, 660,209 taxpayers used the ECN codes as their electronic signatures.
- Intuit, H&R Block and the National Association of Enrolled Agents (NAEA) participated in the practitioner pilot where 499,606 taxpayers chose a PIN when filing through a tax preparer. 8,100 practitioners were selected for the pilot, but only 2,500 actually participated.

The IRS has also contracted with VeriSign, Inc. to conduct a test with IRS employees using advanced technology which will provide electronic signatures and enhanced security for e-mail transactions. This will introduce the IRS to Public Key Infrastructure (PKI) tech-

INTERNET

The IRS is positioning itself to take full advantage of the public's growing acceptance and use of the Internet.

nology and will help to determine whether and how the IRS might use PKI to electronically secure and verify two-way transactions with taxpayers and their representatives.

Return-Free Study: As required by the IRS Restructuring and Reform Act of 1998, the IRS will be reporting to Congress annually on its progress in developing a return-free tax system for appropriate individuals. Such a system may eliminate the need for taxpayer-initiated filing with the IRS, even electronic filing. Annual reports on the return-free tax system will be submitted to Congress by June 30th of each year and will address the following issues: 1) what additional resources the IRS would need to implement such a system, 2) the changes to the Internal Revenue Code that could enhance the use of such a system, 3) the system/procedures being developed, and 4) the number and classes of taxpayers that would be permitted to use the system. The first report to Congress which will be submitted in 2000 will more clearly define the return-free concept, address issues and obstacles to such a system, and assess taxpayer attitudes regarding return-free.

Processing System Consolidation: The IRS has undertaken a number of initiatives to improve the efficiency and reduce the cost of its processing systems, including consolidating operations at fewer sites. First, in 1997 the IRS consolidated its Applications and Suitability processing for EROs at the Andover Service Center. Second, the IRS replaced its outdated IBM Series 1 computers with the Electronic Management System which is located at fewer sites. The IRS will also be developing plans to conduct Participants Acceptance Testing (PATS) at fewer sites, providing both primary and back-up capability, in order to ensure uniformity and consistency for all filers during the test period.

Fraud Prevention and Control: As part of IRS' overall Revenue Protection Strategy, continued steps will be taken to protect ETA systems against those who would attempt to file fraudulently. Emphasis will be placed on evaluating new systems and initiatives to determine the potential for fraud and, as important, the ways to minimize fraud. The IRS will assess the risks and the potential exposure to fraud before any new initiative is undertaken and will ensure that systems are designed with mechanisms in place to prevent those who would attempt to circumvent the system fraudulently.

Marketing and Channel Management

Marketing will support the overall ETA Program by building upon the extremely successful 1999 marketing campaign, expanding the use of targeted paid advertising, launching a business product marketing strategy, and broadening its trade show agenda. Emphasis is being placed on specific market segments, as well as distributors. The IRS has already established qualitative and quantitative methods to evaluate the effectiveness of its marketing initiatives. Greater insight into the needs of its customers will be obtained by continuing to conduct taxpayer and third-party surveys and focus group interviews, performing demographic and psycho-graphic analysis, and enhancing its marketing data base which was established in 1998. The IRS will also establish a national accounts management program, pilot a field-based accounts management operation, develop an ERO Web site, initiate service-based incentive programs, and better target compliance checks to serve the respective needs of its distributors.

IRS *e-file* Promotions: In conjunction with its advertising agency, Emmerling Post, the IRS plans to continue to enhance and expand its campaign for informing and educating taxpayers and practitioners about the benefits of electronic filing. Specifically, the IRS plans to build on its extremely successful 1998 and 1999 filing season campaigns which promoted the use of electronic filing options with primary emphasis on practitioner *e-file.* Along with the free Marketing Tool Kit that is provided to EROs in the fall, the IRS is planning the largest *e-file* advertising campaign ever for the 2000 filing season. A series of TV and radio commercials, magazine ads, Internet banners, video productions and various other public relations activities will be implemented to strengthen the brand name of IRS *e-file.*

Targeted Paid Promotions: Dependent on funds availability, the IRS hopes to take full advantage of the provision contained in the IRS Restructuring and Reform Act of 1998 which authorized the use of mass communications to promote the benefits of ETA programs and to encourage their use. Based on the results of an eight-week test which was conducted in four different metropolitan areas during 1998, the IRS continued its paid IRS *e-file* promotions in 1999 with positive results. A May 1999 report by Angell and Company on the effects of IRS *e-file* advertising in selected Paid and Control markets concluded that the 1999 marketing campaign was especially effective in the Paid markets with respect to IRS *e-file.* While both the Paid and Control markets showed increases in IRS *e-file* awareness, the increases in the Paid markets were much larger than those in the Control markets. Morever, the results indicated that IRS' 1999 marketing efforts clearly built on what was established during the 1998 campaign.

Businesses

The IRS has also extended its marketing efforts into the business community.

Business Promotions: The IRS has also extended its marketing efforts into the business community. In conjunction with outside consultants, the IRS is developing an overall marketing strategy for ETA business products and services. In 2000, ETA will be developing a campaign primarily focusing on the top six business returns which include Form 1065, the Form 941 suite of products including 941 TeleFile, 941 On-Line and 941 *e-file,* Form 1041 and Information Returns (W-2s, 1099, etc.). ETA is supporting these efforts by baselining demographics on the filers of these top six business returns. The campaign will also integrate other business filing and payment products including EFTPS and STAWRS. Marketing campaigns have already been undertaken to promote and encourage taxpayer usage of electronic payment options, especially EFTPS. The IRS is aggressively promoting volunteer participation in EFTPS and has charged the EFTPS financial agents with deploying a Web site for enrollments, payments and customer service.

Incentives: In the Fiscal Year 1998 Appropriations Bill, Congress authorized the IRS to pay up to $3.00 for each return filed electronically when the Commissioner of the IRS determines that it is in the best interest of the government to make such a payment. In September 1997, the IRS released a draft Request for Information (RFI) to explore the industry's interest in the cash incentive initiative as well as other arrangements. In response to the RFI, private industry responded that the IRS should invest first in correcting systemic deficiencies, introducing new products and services, and engaging in aggressive national marketing before engaging in direct cash subsidies to the private sector.

Distribution Channel Management: Tax practitioners authorized to electronically file tax returns to the IRS (Electronic Return Originators) must be recognized, supported and motivated as ETA product and service distributors. Much as the private sector employs store front operations (whether independent, franchise or corporate owned), the IRS depends upon tax practitioners to promote electronic filing and payment to taxpayers. In support of this vital channel and based on their input, ETA will seek to support EROs by expanding the marketing support available including national advertising and promotional kits; implementing a program of product and service incentives, rewards and special recognition depending upon an ERO's success in marketing ETA products and services; developing an ERO Web site; and establishing an ETA accounts management program. In this vein, the IRS intends to establish a Platinum - Gold - Silver - Bronze Practitioner Program. EROs will ascend from Bronze to Platinum Authorized IRS *e-file* Providers as they electronically file more and more of the eligible returns they prepare. Special recognition and rewards will be identified for each level. In particular, a suite of electronic services will be enabled on the ERO Web site. Platinum preparers will have access to all of these services, Gold a subset, Silver and Bronze progressively fewer.

ERO Web Site: In support of its distribution channel, ETA will be establishing an ERO Web site consisting of management information system, tax law, privileged e-mail and account resolution capabilities. Initially, the ERO Web site will allow direct access to the Digital Daily, tax forms and publications and marketing information. In particular, Distributor Management Information System (MIS) will be used to communicate with ETA external partners. The Distributor MIS will be populated with marketing information so that our partners can research the progress of their electronic filing programs. Electronic services which will be made available, depending on *e-file* level earned, will include among others: electronic Power of Attorney, electronic Offers-in-Compromise, electronic Installment Agreements, electronic Account Inquiry, Electronic Transcript Delivery, priority e-mail handling, etc.

National Accounts Program: As part of its reorganization, ETA established an Accounts Management Division headed by a former private sector marketing executive to support EROs, payroll service providers, software developers and transmitters who distribute ETA products and services to taxpayers. Like the private sector, the IRS recognizes that a select number of these distributors have a disproportionate impact on the industry, have unique needs and should be serviced accordingly. Each of these distributors will be serviced by a National Account Manager who will be responsible for establishing a strategic partnership with these key players.

Field-Based Accounts Management Pilot: In order to interact effectively with the majority of its distributors, it is essential that the IRS have a seasoned sales/accounts management force in place at the local level. As a first step in this direction, the IRS will be piloting field-based Accounts Management in the Southern California District (Laguna Niguel, CA) and in the Kansas-Missouri District (St. Louis, MO) beginning in the fall of 1999. Based on the results of the pilot and in conjunction with the IRS' overall Organizational Modernization effort, the Accounts Management Program will be implemented at other IRS field offices in the future.

ETA Telesales/Telesupport Services: To ensure that the field-based Account Managers are able to dedicate themselves to relationship building with larger accounts, call site resources will be dedicated to handling in-bound questions or inquires (telephone or e-mail) from practitioners. The callers may be practitioners who are interested in offering ETA product and services for the first time or those who are already participating. Outside the filing season, these same resources would turn to outbound telemarketing inviting new practitioners to join the authorized IRS *e-file* provider program or attempting to surface barriers to those participating from filing even more electronically. Given that there are approximately 90,000 EROs, the majority of practitioners and EROs will be serviced and supported by telephone or through e-mail.

Management Improvements:

The IRS must begin to operate more like the private sector if it is to be successful in the emerging electronic environment. Electronic Tax Administration is already in the midst of transforming itself into a business through a series of organizational, analytical and communication initiatives.

Alliance Strategy: While fostering robust private sector competition, the IRS will continue to build upon the alliance that it already forged with the private sector through the Request for Agreement (RFA) and Request for Proposal (RFP) processes. During the 1999 filing season, the IRS entered into new partnerships with private sector firms to broaden the electronic services accessible through the IRS Web site, in addition to the credit card and PIN pilots that were discussed previously. As part of these non-monetary arrangements, the IRS placed hyper-links from the "IRS *e-file* Partnerships" page of its Web site "Digital Daily (www.irs.gov)" to the partners' Web sites. The companies, in turn, developed initiatives to increase *e-filing*. The IRS *e-file* Partnerships page had links to the following companies providing services for individuals:

- Universal Tax Systems, Inc.: prepare and *e-file* all federal and state returns; free for active U.S. military and Oklahoma residents — charge for others.
- Intuit, Inc.: prepare and *e-file* federal and state returns ; free service for some.
- UDS ELECtro TAX LLC: download free software for federal and Maryland returns; charge for *e-filing*.
- 2nd Story Software, Inc: free software; charge for deluxe package or *e-filing*.
- Block Financial Corp.: free 1040EZ *e-filing* online; charge for federal and state software includes unlimited *e-filed* returns.
- H&R Block, Inc.: link to *e-filing* and other tax services.
- Jackson Hewitt: tax information; download discount tax preparation coupon.

Furthermore, some *e-file* partners provide services to businesses to promote *e-file* to their customers or employees. The IRS Web site had links to three such partners:

- Electronic Filing TODAY - Peoples Income Tax: newsletter for tax professionals; *e-filing* for individuals; other tax and financial services.
- QuickFile USA: free *e-filing* materials for credit unions and employer groups.
- Tax Refund Express: *e-file* products and services for financial institutions.

Partnership Opportunities

Visit the IRS Procurement Web Site at www.procurement. irs.treas.gov/ to learn more about partnership opportunities with ETA. Click on "solicitations" for RFA/RFP information or on "guides" for instructions on submitting unsolicited proposals.

The RFA/RFP process for the 2000 filing season, which includes such initiatives as cooperative marketing, employee programs, authentication and payments, is already underway and several new and exciting partnerships are expected for next year.

In addition to building upon its alliance with the private sector, the IRS will also work cooperatively with other Federal agencies and state governments through a series of initiatives, including Access America, STAWRS and the ETAAC, to take a broader "government" approach to Electronic Tax Administration. In conjunction with the Department of Treasury, the Department of Labor, the Social Security Administration and the states, the IRS is identifying and pursuing ways to improve the nation's tax and wage reporting system under the STAWRS project. As explained further below, state governments are also represented on the ETAAC which provides a public forum for the discussion of issues involving Electronic Tax Administration. Finally, the IRS will continue to encourage state participation in existing IRS *e-file* programs, as well as develop new products and services by working cooperatively with the states.

Electronic Tax Administration Advisory Committee (ETAAC): As required under the IRS Restructuring and Reform Act, the ETAAC was established in 1998 to provide an organized public forum for discussion of ETA issues in support of the overriding goal that paperless filing should be the preferred and most convenient method of filing tax and information returns. The ETAAC, which is comprised of representatives from various groups, including tax practitioners and preparers, transmitters of electronic returns, tax software developers, small and large businesses, employers and payroll service providers, individual taxpayers, state governments, and financial industry members, was established to provide continuing input into the development and implementation of the IRS' Strategy for Electronic Tax Administration. The ETAAC issued their first report to Congress on the status of the ETA Program in June 1999, stating that "the IRS has made a good start in setting out a program to achieve the electronic filing goals established by Congress."

Organizational Structure: In order to facilitate the delivery of the Strategic Plan, in partnership with the National Treasury Employees Union a test reorganization of ETA is being undertaken in 1999. The reorganization established an Accounts Management Division, created the ETA Modernization Executive Office, and is in the process of realigning the existing divisions to be more consistent with Commissioner Rossotti's overall vision for modernizing the IRS. Through its reorganization and related initiatives, ETA is rethinking its approach for developing and delivering products and services to taxpayers. ETA recognizes that taxpayers are its service consumers and that it must clearly designate within its own organization employees who will champion the causes of both individual and business taxpayers, exempt organizations and state and local governments. These employees will ensure that products and services for filing, paying and communicating with the IRS are designed with the various and different market segments in mind. Product management staff will be responsible for the full range of product management activities including opportunity analysis, market segmentation and targeting, product and service definition, product development, product usability, channel management, promotion and product launch.

Both taxpayers
and practitioners
report a high level
of satisfaction with
IRS *e-file.*

Economic Insight: The IRS must gain a better understanding of the economic implications of Electronic Tax Administration, including continuing to address such basic issues as the cost of electronic filing versus the cost of paper filing. Previous efforts to answer this question have been incomplete. However, the 1998 Service Center Submission Processing Activity Based Costing offered a good start and will be followed by A Non-Submission Processing Study which will be completed by February 2000. This latter study will gather costs relating to Examination, Collection and Customer Service.

Consumer Insight: In addition to gaining a better understanding of the economic implications of Electronic Tax Administration, the IRS must also gain greater insight into the needs of its customers (i.e., taxpayers and distributors). The IRS must do a much better job of understanding not only the demographics, but also the psycho-graphics — the attitudes and behavior — of its customers in order to provide the products and services that the public will use. Last year, the IRS began making pertinent tax return demographic data from the ETA Marketing Database accessible to both internal and external stakeholders via the IRS website. This year, taxpayer and preparer satisfaction research was conducted for ETA by Russell Marketing Research, Inc. As discussed previously under Strategic Goals, both taxpayers and practitioners reported a high level of satisfaction with IRS *e-file* products and services.

Early and Open Communications: The IRS must improve its communications if Electronic Tax Administration is to be effective. Problems and issues that arise, whether they involve a delay in forms delivery or a delay in the availability of the IRS' processing programs, must be communicated clearly and effectively to its many stakeholders including the software community, the tax preparation community and to the public at large so that they have sufficient time to plan and react accordingly. As indicated previously, industry leaders, major firms and organizations must also be kept better informed of the progress in rebuilding IRS' technical infrastructure. Additionally, the IRS is reexamining its communications vehicles to ensure that it has modern capabilities to provide timely information to all interested parties.

Intranet: ETA is currently establishing a web-based (Intranet) management information system to provide the IRS workforce, both at the Headquarters office and in the field, with the business data products necessary for them to perform their jobs effectively. The Intranet Web site, which will be phased in beginning this year, will provide on-line technical, marketing and statistical information relating to ETA products and services.

Strategic and Tactical Planning: To paraphrase Winston Churchill, preparing "A Strategy for Growth" is not the end of strategic and tactical planning for Electronic Tax Administration, nor is it the beginning of the end. It is perhaps the end of the beginning. As illustrated in Appendix F, the ETA strategic planning process will result in annual Strategic Plan updates being issued each December. Since "A Strategy for Growth" has been described as a living document, it is only fitting that strategic and tactical planning within Electronic Tax Administration should also be viewed as an evolving process.

Electronic Information Services

Drawing from its hugely successful Home Page (http.//www.irs.gov), the IRS, under the leadership of the National Director, Multimedia Production Division, has taken advantage of the public's growing acceptance and use of the Internet. New technical capabilities to expect for the 2000 filing season are:

- Taxpayers can use the *e-file* Provider Database to search for the nearest authorized IRS *e-file* providers.
- In order to reduce unnecessary filing, taxpayers will be able to answer a series of questions to determine if their income is below the filing requirement. If their income is below the requirement to file, they will be able to download a Form W-4 or W-4P to adjust their withholding for subsequent years.
- The new Interactive Installment Payment Process will help taxpayers determine if they are eligible for an installment agreement, and what their monthly payment would be. This payment option is for individuals who have filed their tax returns and are not already paying taxes under an installment agreement.

As further indicated in Appendix A, other ongoing and planned initiatives for IRS' home page include the following:

Business Repository: The IRS' core business information repository provides electronic access to and management of IRS' most critical text and graphics information products. This repository contains more than 10 years of tax forms, publications, and instructions, along with primarily internal information such as the Internal Revenue Manual. More IRS information products will continue to be added to the repository, with the widest distribution products first.

Calculators and On-Line Forms: The IRS will continue to develop on-line calculators to ease burden and reduce errors. Fill-in tax forms were available for the first time in 1998 on CD-ROM and Internet (without calculations).

Corporate Partnership Program: This program provides CD-ROMs of IRS tax products to large businesses which place the CDs on their internal networks and offer free access to their employees. Other Federal and state government entities may also join the program. Started in Fiscal Year 1998, this program will be expanded through 2004.

E-mail Capabilities: Customer demand for access to IRS services via e-mail continues to experience dramatic growth. Three programs will help IRS meet that demand; the Digital Dispatch, Electronic Tax Law Assistance, and a new program, e-mail Router. The Digital Dispatch and subsidiary "Local Dispatch" systems will provide e-mail newsletter type services. The Dispatch is in operation and the local newsletter capability was added in 1998. E-mail Router will improve IRS' ability to route e-mail traffic from external sources to the correct offices for rapid follow-up.

Electronic Information Capacity - CD-ROM, Fax, and Internet Services: A highly scalable, physically distributed architecture must be built to support high volume, very peaked traffic. Information assets must be secure. Support must also be provided for referrals to and from separate, secure transaction servers in ETA and for search capabilities across IRS Internet secure and non-secure services. The capacity of all systems must be increased significantly each year to handle projected demand. More IRS products will be added to all media, particularly products which promote electronic filing and payment.

Frequently Asked Questions and Answers (FAQ) Data Base: The most critical information to be added to the core repository is a growing base of Frequently Asked Questions and Answers. E-mail tax law questions and answers will be the primary feed for this system. E-mail will be examined and standard answers developed for a searchable base. This base will be used in three ways; first for assistor research and in serving customers (provides consistent and accurate answers). Second, the base will be continuously fed to electronic media for public use. Third, the FAQs will be fed back to appropriate IRS business functions to immediately improve the quality of products and services.

Interactive Help Desk: Under this initiative, the IRS will provide help desk services with "triage" capability. Help on Electronic Information Services is available by phone, fax, and e-mail for CD, fax, Internet and electronic bulletin board services. The IRS also tested the capability to interact live with taxpayers on the Internet to resolve problems with information services in 1999.

On-Line Learning Lab: Under this initiative, the IRS will improve taxpayer education programs, particularly for first time taxpayers, students aged 13-18 who learn about taxes in school. An on-line learning lab has been developed which covers, among many topics, the reasons why Americans pay taxes and how taxpayers can meet their tax obligations. Particularly important for students are the availability of electronic filing options and the opportunity to learn how to file taxes electronically.

Public and Private Library Services: The Library program currently provides IRS CD-ROMs to public libraries. The IRS plans to add web- based and e-mail services to assist librarians in distributing tax information. This program will be expanded in 2000 to libraries which are not "public"(such as those in private colleges).

Small Business CD-ROM: The IRS will be undertaking a number of cross-government initiatives for one-stop service starting with a cross- government CD-ROM for start-up businesses. The CD will be useful for anyone who is starting a new business and will provide information from a variety of government agencies.

Virtual Communities of Interest for Information Exchange Partners: In 1998, the IRS developed the first of many services targeted to information exchange partners, a service for tax professionals called the Tax Pro Corner. Later in 1998, Y2K trading partner services were added. The services will begin with CD and Internet services and will expand to become increasingly interactive, allowing for electronic exchange of information and ideas and allowing for more immediate feedback and improvement of services.

Offering Innovative Products and Services

In 1999, the IRS introduced several enhancements to Electronic Tax Administration including accepting payment by debit and credit cards, testing alternatives to written signatures, accepting more forms and schedules, piloting FederalState TeleFile and expanding paid advertising. Although these actions combined to increase the volume of electronic filings and payments, bolder steps will be needed in the future. In support of the mission and strategies for Electronic Tax Administration, the IRS has identified ETA initiatives in the areas of individual income tax, other business returns, payroll tax, and electronic payments. These initiatives, which are more fully explained in Appendix A, consist of specific ETA products and services that will be developed and implemented over the next five years.

Individual Income Tax: Through a range of products and services designed to meet the specific needs of individual taxpayers, the IRS is targeting 44 - 49 million 1040s annually filed electronically by calendar year 2003. (See Appendix E for additional information on IRS *e-file* Projections.) Over the next five years, more and more taxpayers will be able to use TeleFile, electronic filing and Federal/State electronic filing. The *e-file* system will become truly paperless and electronic payments will be accepted. Internet applications will be expanded and the opportunities for electronic communications with the IRS will be greatly enhanced. The IRS will rely heavily on the private sector in developing these initiatives and will aggressively market its products and services through a variety of means including paid advertising.

Other Business Returns: A significant increase in electronic transactions will also occur by focusing on such areas as corporations, partnerships, fiduciaries, exempt organizations and information return documents including implementing the Taxpayer Relief Act provisions regarding Forms 1065/Schedule K-1s. Electronic filing, Internet applications and additional private sector innovations will be emphasized in order to achieve a total volume of approximately 13.5 million electronic returns including related Schedule K-1s and 1.3 billion non-paper information documents filed annually by calendar year 2003.

Payroll Tax: Under this initiative, the IRS plans to expand the filing, payment and communications options available to employers including TeleFile and Internet alternatives. Federal/State options will be piloted, information services for employers will be established and additional products and services will be developed through partnering with private industry. Marketing campaigns will be conducted to ensure that employers are aware of their new options for interacting with the IRS. Through these and other efforts, the IRS is targeting in excess of 6.4 million Forms 941 and 940 annually filed electronically or via magnetic media by calendar year 2003. Under the STAWRS initiative, the IRS will continue to work with the Department of Treasury, the Social Security Administration, the Department of Labor, the Small Business Administration and the states to identify and pursue ways to improve the nation's tax and wage reporting system. The objective of each agency's participation in STAWRS is to reduce the tax and wage reporting burden on employers while improving the efficiency and effectiveness of each agency's operations. Key initiatives underway in this area include the harmonized wage code, single point filing and streamlined customer service.

Electronic Payments: Under this initiative, the IRS will continue to expand the electronic payment products and services available to taxpayers. Emphasis will be placed on expanding electronic payment options for individual taxpayers including credit cards and Automated Clearing House (ACH) debit, as well as improving and promoting EFTPS, while simultaneously studying the feasibility of eliminating or decreasing the usage of the more labor intensive programs such as magnetic media. A web site for EFTPS enrollments, payments and customer service will be deployed. Marketing campaigns will be undertaken to promote and encourage taxpayer usage of the electronic payment options.

Appendices

The appendices to the Strategic Plan contain the following more detailed information:

- Appendix A contains the Implementation Schedules and Project Descriptions for the Individual Income, Other Business Returns, Payroll Tax, and Electronic Payments products and services.

- Appendix B provides the ETA Modernization releases.

- Appendix C includes the Business Goals for the ETA strategies.

- Appendix D includes the Industry Overview which consists of ETA statistics and participation levels.

- Appendix E contains IRS *e-file* CY 2000 - 2007 Projections for individual and business returns.

- Appendix F documents the Strategic Planning Process for ETA.

The IRS welcomes comment on "Electronic Tax Administration: A Strategy for Growth." Comments may be mailed to Assistant Commissioner (Electronic Tax Administration) 1111 Constitution Ave. NW, Washington, D.C. 20224; faxed to (202) 622-6264; or e-mailed to *eta-strategic-plan@m1.irs.gov.

Products and Services

Electronic Tax Administration Priorities

Offering Innovative Products and Services

> **Individual Income Tax**
> **Other Business Returns**
> **Payroll Tax**
> **Electronic Payments**

Building The Foundation

Marketing and Channel Management

- IRS *e-file* Promotions
- Targeted Paid Promotions
- Business Promotions
- Distribution Channel Management
- ERO Web Site
- National Accounts Program
- Field Based Accounts Management Pilot
- ETA Tele-sales & Tele-support Serivces

Management Improvements

- Alliance Strategy
- ETA Advisory Committee
- Organizational Structure
- Economic Insight
- Consumer Insight
- Early and Open Communications
- Intranet
- Strategic and Tactical Planning

Technical Infrastructure

- PRIME Alliance
- Internet Capabilities
- Authentication
- Return-Free Study
- Processing System Consolidation
- Fraud Prevention and Control

Electronic Information Services

- Business Repository
- Calculators/On-Line Forms
- Corporate Partnership Program
- E-mail Capabilities
- Electronic Information Capacity
- FAQ Database
- Interactive Help Desk
- On-Line Learning Lab
- Library Services
- Small Business CD-ROM
- Virtual Communities
- Installment Agreements

ETA Products and Services
Implementation Schedule

2000	2001	2002	2003	2004

INDIVIDUAL INCOME TAX

6▲ 9▲ 8▲ 2▲ 5▲ 7▲ 12▲
13▲ 3▲ 11▲
4▲ 10▲ 15▲ 14▲
1▲

OTHER BUSINESS RETURNS

19▲ 21▲ 16▲ 17▲ 22▲ 24▲ 20▲
18▲ 23▲ 25▲
27▲ 26▲

PAYROLL

28▲ 33▲ 30▲ 32▲ 38▲ 34▲
39▲ 35▲
31▲ 29▲ 36▲ 37▲ 40▲

ELECTRONIC PAYMENTS

42▲ 6▲ 4▲ 23▲ 14▲
1▲ 43▲ 31▲ 29▲ 41▲

Individual Income Tax

2000	2001	2002	2003	2004

1. 1040 Integrated Filing and Payment

2. Electronic Account Resolution

3. Accelerated Refund

4. Integrated Filing and Payment by Credit Card

5. Electronic POA, Electronic TIA

6. 1040 Integrated Filing and Payment by TeleFile

7. Foreign Aspect Returns

8. More Forms and Schedules

9. Combined Fed/State Acknowledgments

10. Fed/State TeleFile

11. Tax Preparer Notes

12. Electronic Substitute for Return

13. State Only Filing

14. 1040 Combined Fed/State Payment

15. Electronic Transcript Delivery System

Other Business Returns

2000	2001	2002	2003	2004

16. 1065

17. 1120

18. 1120S

19. 1098 and 1099

20. 7004 Internet

21. New 1041

22. 1041 Fed/State Replacement

23. 2290 E-file/TeleFile Filing with Payments

24. 990

25. TIN Matching for Government Contracts

26. 5471, 6166

27. EXFIRS

Payroll Tax

2000	2001	2002	2003	2004

28. 941 On-line Filing (OLF)

29. 940 Integrated Filing and Payment

30. 941 EZ Internet

31. 941 Integrated Filing and Payment

32. 940 EZ Internet

33. 940 E-File

34. 940 On-line Filing (OLF)

35. 940 TeleFile

36. 943 Internet

37. 945 Internet

38. STAWRS Single Point Filing

39. STAWRS Harmonized Wage Code

40. STAWRS One-stop Customer Service

Electronic Payments

2000	2001	2002	2003	2004

1. 1040 Integrated Filing and Payment

4. Integrated Filing and Payment by Creditcard

6. 1040 Integrated Filing and Payment by TeleFile

14. 1040 Combined Fed/State Payment

23. 2290 E-File/TeleFile Filing with Payment

29. 940 Integrated Filing and Payment

31. 941 Integrated Filing and Payment

41. EFTPS Marketing

42. Mag Tape Deposit Elimination

43. Internet EFTPS

Project Descriptions

Number	Title	Description
1	1040 Integrated Filing and Payment (ACH Debit)	**Completed.** Inclusion of a payment record as part of the electronic return. Perform applicable validation and consistency checks between the return and payment data and create appropriate acknowledgement data. Strip off accepted payment records, consolidate into payment file and transmit daily to the Financial Agent (FA).
2	Electronic Account Resolution	Providing that adequate security and privacy safeguards exist, the IRS will be exploring the use of E-Mail for resolving account related issues. Initially, the IRS will enable secure E-Mail communications with practitioners. Developmental work will then commence for electronic account resolution for taxpayers as required under the IRS Restructuring and Reform Act.
3	Accelerated Refund	Reduce by 50% the time from acceptance of an electronic return to issuance of the refund.
4	Integrated Filing and Payment by Credit Card	Inclusion of a payment record as part of the electronic return. Perform applicable validation and consistency checks between the return and payment data and create appropriate acknowledgement data. Strip off accepted payment records, consolidate into payment file and transmit daily to the Financial Agent (FA). Pilot credit card payments for 1040ES and 4868 payments.
5	Electronic POA, Electronic TIA	Analyze Form 2848, Power of Attorney and Form 8821, Tax Information Authorization, to determine what information needs to be captured and where it needs to be captured. Modify any forms and files determined to be impacted and coordinate any related programming and procedural changes. Scheduled to be included in Modernization release for 2001.
6	1040 Integrated Filing and Payment by TeleFile	Allow TeleFile balance due filers the option of authorizing a debit transaction to their bank account during the TeleFile call. Conduct survey either by providing an option at the end of the call or by mail asking for taxpayers' feedback. Modify payment option as needed.
7	Foreign Aspect Returns	Research the various types of foreign aspect individual income tax return filings to determine which are suitable for filing electronically and establish a schedule to add them to the e-file program. Also, develop an interface for the Electronic Management System (EMS) to receive and acknowledge Form 1040NR returns which are currently filed electronically at the Philadelphia Service Center.

Number	Title	Description
8	**More Forms and Schedules**	Allow more attachments to the Form 1040 to be filed electronically to provide for a broader base of taxpayers eligible to participate in the program. Begin adding more forms related to investment and business activities, with the ultimate goal of allowing the majority of individual income tax returns that are prepared electronically to be filed electronically.
9	**Combined Federal-State Acknowledgements**	Identify requirements and develop the capability to receive state acknowledgement files, associate with federal acknowledgement files, when applicable, and load into EMS for retrieval by transmitters.
10	**Federal-State TeleFile**	Test the concept of allowing taxpayers to file both their federal and state tax returns in one phone call using the TeleFile system. Additional data required only by the state will be entered after the federal return is completed. Indiana and Kentucky participated in the prototype. Expand pilot to allow all eligible taxpayers in Kentucky and Indiana to participate in Federal/State filing. Pursue inclusion of other interested states as resources permit.
11	**Tax Preparer Notes**	Explore the feasibility of providing the capability for filers/taxpayers to include explanatory/voluntary information as part of the electronic return.
12	**Electronic Substitute for Return (SFR)**	Research and evaluate the existing electronic substitute for return program and determine what improvements and enhancements are needed to make it completely electronic. Consider providing revenue officers and other applicable staffs with electronic filing software and laptops with modems to prepare and transmit substitute returns from the source. Develop plan for development and roll out system. Assess feasibility of developing a program to electronically generate a substitute for return to assist field employees. Analyze the requirement for replacing the A-6020B program that prints a substitute return for Forms 941 and Forms 940 based on systemic calculations. Currently the paper is manually processed. Analyze existing 1040 substitute programs for enhancements.
13	**State Only Filing**	Allow state returns from participating filers for selected states into the electronic filing system for taxpayers who have an accepted Federal return on file. Put state returns on the State Retrieval System for retrieval by the applicable states.

Number	Title	Description
14	**1040 Combined Federal-State Payment**	Provide the capability to transmit payment records for both federal and state Electronic Payment balance due amounts on the electronic return. Perform limited validation of state payment data. Develop new state payment record if necessary and modify ELF programs as necessary.
15	**Electronic Transcript Delivery System (ETDS)**	The Electronic Transcript Delivery System (ETDS) will automate the disclosure of taxpayer information to designated third parties that have been authorized by the taxpayer to receive their tax return information. The current transcript request process is labor intensive and paper-based and takes an average of 7-10 days for customers to receive the transcripts that they requested. The ETDS pilot will automate the process, ensure secure transmissions and return requested information within 24 hours. In the long term, ETDS will be part of the Modernization functionality/ architecture being developed in conjunction with the PRIME Alliance and is scheduled to be included in the release for 2001.
16	**1065**	Accommodate capacity and program requirements of legislative mandate in the Taxpayer Relief Act of 1997 requiring certain filers to submit Forms 1065 and Schedules K-1 electronically.
17	**1120**	Currently, there is no electronic processing system for Forms 1120. Develop plans to move these forms and schedules to some form of electronic filing.
18	**1120S**	In conjunction with the Form 1120 initiative, ETA will also explore electronic filing for Forms 1120S for subchapter S businesses.
19	**1098 and 1099**	Currently, Martinsburg Computing Center (MCC) receives 1098 and 1099 data electronically on the TBBS and on magnetic media. MCC also processes this data on mainframe programs. Develop EMS receipt of Forms 1098 electronically and in magnetic media for processing in proprietary format in ETD program in EMS.
20	**7004 Internet**	Currently the extension to file business returns is received only on paper. Extensions are usually requested for complex business returns. Develop a module in EMS to receive Form 7004 in proprietary format. Need to coordinate with EFTPS.
21	**New 1041**	Receive Form 1041 data electronically in proprietary format through EMS.

Number	Title	Description
22	**1041 Federal-State Replacement**	Expand the participation of the 5 banks in New York to other geographical areas. Philadelphia Service Center has already initiated contacts with other interested parties. Using their information as a baseline, expand the participation accordingly.
23	**2290 *e-file*/TeleFile Filing with Payment**	Analyze existing data on Forms 2290. Define and develop Form 2290 *e-file*/TeleFile to allow filers of Highway Use Tax filing and payment. This initiative will no longer be required if pending legislation, which would require truckers to file and pay their Federal taxes concurrently with applying for their state licenses, is enacted.
24	**990**	Develop Form 990 in EFS and EMS in proprietary format. Identify the requirements for filing the series 990s electronically, to include via the Internet. Identify optimum alternative ways of filing, identify the targeted audience to include what the impact of "parent" organization may require.
25	**TIN Matching for Government Contracts**	DOD and other government agencies would like IRS to participate in joint effort to validate TIN and Name of companies and personnel to assure billing and security information is accurate.
26	**5471 and 6166**	Form 5471 – Information Return of U.S. Person with Respect to Certain Foreign Corporation. Form 6166 – Certification of Filing a Tax Return (used by corporations). Currently, both of these forms are received and processed at Philadelphia Service Center on their BBS and ECS. Develop EMS to receive both forms.
27	**EXFIRS**	Excise Fuel Information Reporting System (ExFIRS) is a Congressionally mandated automated fuel tracking system to facilitate monitoring and compliance of excise tax motor fuel laws. It is currently comprised of ten subsystems, some of which electronically collect motor fuel information as it passes into and through motor fuel terminals to predict potential company fuel volumes that can be compared to the filed Excise Tax Returns (Form 720). The subsystems also include the tracking of claims, fuel movement, export and import, dyed diesel fuel program, registration authentication, fuel fingerprint library, and state information sharing.
28	**941 On-Line Filing (OLF)**	Nationwide rollout of 941 On-Line Filing Program. This Program allows business filers to prepare and file Form 941 using a PC, modem and off the shelf software to transit tax returns to a third party transmitter and/or a Reporting Agent, who will then transmit to the IRS.

Number	Title	Description
29	**940 Integrated Filing and Payment**	Pilot system to receive Forms 940 electronically accompanied with payment information for ACH debits and/or credits. Strip payment data and forward to a Financial Agent who will transfer funds and forward appropriate data to the EFTPS. Mandated payments not attached to a return will continue to be required and sent by the Financial Agent directly to EFTPS.
30	**941EZ Internet**	Identify system and software requirements to build a transactional internet to receive an abbreviated Form 941 for a target market via the internet. Requirements should include receipt and processing. All systems inter-faces must be identified and developed, including returning acknowledge-ments to filers.
31	**941 Integrated Filing and Payment**	Accept receipt of electronic Forms 941 returns with electronic payment records for ACH debits at all 941 e-file locations. Payment records should be implemented for e-file, OLF and TeleFile programs.
32	**940EZ Internet**	Identify programming, system and interface requirements to receive and process a transactional internet product for Form 940EZ data.
33	**940 e-file**	Modify the BMF Trading Partner Interface in EMS to accept Forms 940 in EDI and proprietary formats. Build an interface with Business Customer Database for signature authentication.
34	**940 On-Line Filing (OLF)**	Identify requirements and build EMS module for receipt from transmitters and processing of Forms 940 in EDI format and interface with CDB. 940OLF will use the same programs (back end) as 940E-file. Include assignment of a new doc code to identify OLF returns for reporting and statistical analysis. Pilot accepting Forms 940 OLF in EDI and/or propri-etary format in EMS at AUSC. Build automated interface with Business Customer Database for signature authentication.
35	**940 TeleFile**	Identify requirements and build a TeleFile module to accept Forms 940 via the telephone from pre-selected participants. The program could model the 941 TeleFile program and will use the same back end programs as 940E-file. Include assignment of a new doc code to distinguish TeleFile returns for reporting and statistical analysis. Pilot accepting Forms 940 via the TeleFile program to be processed at TCC.

Number	Title	Description
36	**943 Internet**	Identify programming, system and interface requirements to receive and process a transactional internet product for Form 943 data.
37	**945 Internet**	Identify programming, system and interface requirements to receive and process a transactional internet product for Form 945 data.
38	**STAWRS Single Point Filing**	The IRS is piloting receipt of Form 941 data from the states of Montana and Iowa. Employers in these states will voluntarily submit paper and electronic Forms 941 containing both Federal and state data (payroll and unemployment).
39	**STAWRS Harmonized Wage Code**	A Harmonized Wage Code (HWC) data base, consisting of 96 Federal and state employment tax codes with analyses of their differences and similarities, has been completed. A targeted HWC which consists of the components most commonly affecting small employers has also been completed. The next step will be to publish a targeted HWC and apply it to at least one state employment tax code.
40	**STAWRS One-Stop Customer Service (OCS)**	OCS has created and maintained an Internet Gateway for linking customers to relevant government agencies. OCS will also streamline the Federal and state EIN process.
41	**EFTPS Marketing**	The IRS is broadening and enhancing its marketing campaign for EFTPS to encourage required taxpayers to enroll, enrolled taxpayers to use the system, voluntary businesses to enroll and use the system, and mag tape users to enroll and use EFTPS.
42	**Magnetic Tape Deposit Elimination**	The IRS will be eliminating the Mag Tape program for deposits in 2000.
43	**Internet EFTPS**	The IRS, in conjunction with Financial Management Service, is in the process of deploying a website for enrollments, payments and customer service.

ETA Modernization Releases

IRS e-services Near Term Release for 2001

6/1/99	9/1/99	Near Term Release Components		11/1/99	1/1/00	7/1/00	1/1/01
System Concept	System Requirements	**Enterprise**	SR 2.1 ESP & EDAS (Including AuthDB) / SR 1.1/1.2 Account Inquiry	System Design	System Development, Integration and Testing	System Piloting and Deployment	
		Customer Accounts Management	Check-off Limited POA / Interactive POA (Form 2848)				
		Returns Processing (Info/Pay/Tax)	Alternate Signature Expansion (PINs) / Internet-based Pilots –TIN Matching				
		Taxpayer Community	Directory Tax U Software Guide, Forum, Help Desk				
		Value-adding Third Party Community*	Alliance Support –Application & Certification –Tax U, Forum / Alliance Support Extranet-Basic –Secure msg/trans –Channel loyalty				
		Marketing & Channel Management*	Create Database –Community DB's –Existing DB's –Prod/Svcs/ Stds / Basic Services –Reports –Analyses –Simple modeling				

Note: Designed to support all Business Operating Divisions

IRS e-services Follow-on Releases for 2002 and Beyond

10/1/99   **Follow-on Release Components for W&I plus SB/SE (IMF)**   ←**1/1/00 through 12/31/07**→

System Concept						System Require-ments	System Design	System Develop-ment, Integration and Testing	System Piloting and Deploy-ment
	Enterprise	Provide Transmission Software	CADE and CRM are rolled out						
	Customer Accounts Management	Authenti-cation of user/POA	Full account Inquiry	Update Account −modification −addition	Settle Account −calculate tax −payment −acknowl-edgment				
	Returns Processing (Info/Pay/Tax)	All forms and schedules (1040 sched-ules and attachments)	*e-filing*						
	Taxpayer Community	Advanced Features							
	Value-adding Third Party Community*	Alliance Support Extranet −Advanced −Software Library							
	Marketing & Channel Management*	Enhance Database −Feeds from CADE −Feeds from CRM −External Data	Advanced Services −Reports −Analyses −"What if" models						

Note: Designed to support all Business Operating Divisions

IRS e-services Follow-on
Releases for 2002 and Beyond

System Concept				System Requirements	System Design	System Development, Integration and Testing	System Piloting and Deployment
	Enterprise	Provide Transmission Software	Tier A Projects CADE, CRM, CADDI and Infrastructure				
	Customer Accounts Management	TBD					
	Returns Processing (Info/Pay/Tax)	TBD					
	Taxpayer Community	TBD					
	Value-adding Third Party Community*	Alliance Support Extranet −Advanced −Software Library					
	Marketing & Channel Management*	Enhance Database −Feeds from CADE −Feeds from CRM −External Data	Advanced Services −Reports −Analyses −"What if" models				

*Note: Designed to support all Business Operating Divisions

Release Descriptions

e-Services 2007 Vision Subsystems	Near term 2001 Release Features	Strategic 2002–2007 Release Features
Customer Accounts Management provides taxpayers with views of total account and ability to reconcile tax liability annually.	Electronic Power of Attorney (POA) (TIA), Interactive POA to replace Form 2848 and services such as secure messaging and transcript delivery.	ETA 2002 and beyond will provide authentication of users, full account inquiry, update and settlement capabilities.
Returns Processing provides taxpayers (individuals and businesses) with ability to electronically file and pay their taxes.	Expansion of alternative signature (PIN) pilots. Internet-based pilot-TIN Matching.	ETA 2002 and beyond will deliver on substantially all forms and schedules.
Taxpayer Community provides individual and business taxpayers both secure and non-secure access to information resources to help them meet their needs.	Variety of e-commerce features such as help desk, interactive guides and directories.	ETA 2002 and beyond will deliver advanced versions of e-commerce features such as help desk, interactive guides and directories.
Third Party Community provides value adding third parties both secure and non-secure access to information resources to help them meet the needs of taxpayers.	Support for application and certification along with loyalty building extranet-based services.	ETA 2002 and beyond will deliver advanced loyalty building features over the extranet.
Marketing & Channel Management supports the IRS in identifying market segments, their characteristics and requirements.	Databases with analytic reporting capabilities.	ETA 2002 and beyond will deliver advanced features including feeds from the new databases (Customer Account Data Engine (CADE) and Customer Relationship Management (CRM) as well as external data.

Business Goals for 2007

Electronic Tax Administration (ETA) has established the following annual business goals and attendant measures in support of its seven strategies which were discussed previously on pages 8-13 of the Strategic Plan. These goals are consistent with the Balanced Measurement System which the IRS is currently putting into effect to modernize the Agency and to reflect the Service's priorities, as articulated in the mission statement. The Balanced Measurement System is a core management tool with a set of balanced measures in three major elements - Customer Satisfaction, Employee Satisfaction and Business Results, with Business Results being comprised of measures of Quality and Quantity and Outreach. Each element represents an important aspect of IRS' overall goals and each is of equal importance in carrying out ETA's programs and functions.

Please note that the goals involving electronic filing volumes are based on the most recent projections developed by the Office of the Assistant Commissioner (Research and Statistics of Income). As IRS gains more experience with the impact of the enhancements which are reflected in the Strategic Plan, increases to the current projections are expected.

Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing:

- 55 - 64 million Forms 1040 received electronically
- 7.4 million Forms 941 and 1.2 million Forms 940 received electronically or on magnetic media
- 16.6 million other business tax returns including related Schedule K-1s received electronically
- 1.5 billion information returns received in non paper form
- 94 percent of all federal tax deposits received electronically
- 10 million taxpayer/tax preparer inquiries resolved electronically

Substantially increase taxpayer access to electronic filing, payment, and communication products and services:

- 100,000 paid preparer EROs file individual and business tax returns electronically
- 1.0 million small business filers file their employment tax returns over the telephone
- All of the top 22 payroll service providers file Forms 941 and 940 electronically
- All of the top 1,000 financial institutions file Forms 1099 electronically
- 75 percent of the Fortune 1,000 file their business tax returns electronically

- The IRS maintains unplanned downtime at less than 1 percent of system availability
- The IRS enables appropriate direct filing, payment and communications through the Internet

Aggressively protect transaction integrity and accuracy:

- Restrict participation to suitable resellers
- Regulate resellers to assure the quality of service delivery
- Authenticate taxpayers in advance of transaction acceptance
- Deploy sophisticated and advanced approaches to detect and prevent refund fraud

Substantially reduce electronic filing per return processing costs:

- Develop processing component cost insight
- Deploy an electronic authentication approach
- Enable debit and credit card payments
- Automate ERO application and suitability processes
- Consolidate and modernize service center ETA assets
- Reduce and eliminate other costs as possible

Deliver the highest quality products and services as promised:

- Reduce electronic filing and payment rejects
- Meet 100 percent of all scheduled product, service and feature commitments
- Achieve 90 percent customer satisfaction
- Achieve 90 percent distributor satisfaction

Seek the best people, ideas and partners to ensure success:

- Establish an ETA Advisory Committee
- Regularly identify and implement best practices from both public and private organizations
- Seek and hire the best people from diverse qualified applicant pools and evaluate solely on performance and ability
- Seek and partner with the best solution providers and evaluate candidacy and success on ability, performance, results, quality and then price

Create a work environment where our employees and partners are skilled, informed and empowered to succeed:

- Introduce timely and thorough communications
- Ensure that employees are skilled in marketing, finance, product and program management
- Establish an appropriate structure to suit the organization's strategy
- Update all position descriptions to match the structure
- Annually establish clear and relevant objectives
- Annually conduct timely and thorough performance reviews
- Enable budgetary consolidation and insight
- Achieve 90 percent employee satisfaction

Industry Overview

An important aspect of developing any strategic plan is to understand where we have been and, more important, where we are going. The following section documents the growth of Electronic Tax Administration over the past decade, analyzes *e-filer* characteristics and taxpayer attitudes toward ETA products and services, and also provides an outlook for the future.

The Evolution of Electronic Tax Administration

IRS *e-file* for Individuals

The IRS' involvement in Electronic Tax Administration began in 1986 with the first pilot of electronic filing which consisted of the electronic transmission of 25,000 individual refund returns from a handful of professional tax preparers through third party transmitters. Thirteen years later, IRS *e-file* programs have evolved so that nearly one out of every four individual taxpayers are now filing electronically. To facilitate this growth, numerous enhancements and features have been added to the program over the years as summarized in Figure 1.

After testing and piloting electronic filing, the IRS built its first fully operational system in 1989, receiving over a million returns the first year. A major enhancement was added to the program the following year when the IRS, in conjunction with the State of South Carolina, kicked off joint Federal/State filing which allows taxpayers to satisfy both their federal and state obligations with a single transmission. Upon receipt of the electronic data, the IRS strips off the state data and makes it available for downloading by the states. Over the years, the Federal/State electronic filing program has grown dramatically. In 1999, thirty-five states and the District of Columbia participated in the program and 8.5 million individual taxpayers took advantage of this option. Another major milestone was reached in the early nineties when the IRS first began publicizing the "File Now Pay Later" option. Taxpayers who file electronically have until April 15th to send in their payment along with the voucher, FORM 1040V. Beginning in 1999, taxpayers who paid via debit (checking or savings account) could also designate a future date for funds withdrawal, up to and including April 15th.

Key Milestones for 1040 IRS *e-file*

Year	Milestone
1986	First pilot of electronic filing
1990	Electronic filing is available nationwide
1991	Joint Federal/State electronic filing begins
1992	TeleFile begins
1994	On-Line Filing begins
1996	TeleFile becomes totally paperless
1998	IRS e-file campaign is launched
1999	Electronic payment piloted
1999	Signature alternatives piloted

While the IRS continued its efforts to improve the practitioner electronic filing program including adding more forms and schedules, it also began to explore other filing options for individuals. In 1991, the IRS began a research project on the filing of tax returns over the telephone and one year later the TeleFile system became operational. The award-winning TeleFile system allows eligible taxpayers to file Forms 1040EZ using a touch-touch telephone. Million of taxpayers can file their tax returns in one short, ten minute call. A confirmation number is provided at the end of the call to verify that the return has been received by the IRS. Because filing by TeleFile is easy, fast, free and available seven days a week, the program has grown significantly since its inception. During the 1999 filing season, 5.7 million taxpayers used the system.

In the mid-Nineties, the IRS introduced yet another filing option for individuals when it allowed taxpayers to file On-Line via their home computer. All that is needed is a modem, IRS-accepted tax preparation software and an On-Line service provider or transmitter. Beginning with a limited pilot in 1995 with about one thousand On-Line returns being filed, the program has grown to 2.5 million filers in 1999.

Further inroads were made in 1999 as the IRS piloted several electronic payment options, as well as alternatives to written signatures. Over 75,000 taxpayers filing balance due returns paid by authorizing that either their checking or savings account be debited as part of their electronic return. In addition, taxpayers made over 53,000 tax payments using their credit cards. The IRS also conducted two pilots which provided a paperless filing experience for over one million taxpayers. These pilots, involving the Practitioner *e-file* and On-Line filing programs, tested the use of a Personal Identification Number (PIN) as the taxpayer's signature in order to eliminate the need to file the paper jurat.

As the filing options available to individual taxpayers continued to mature, the IRS recognized that it needed to do more to educate and inform the public about the benefits of electronic filing. In 1998, in conjunction with the advertising agency, Emmerling-Post, the IRS launched the first phase of its IRS *e-file* awareness campaign, which introduced a new name and logo for the program, IRS *e- file*. Based on its success, the campaign was expanded for the 1999 filing season. Attitudinal, awareness and tracking studies are conducted each year to improve the campaign for the upcoming filing season. Overall, the IRS spent $5 million and $8 million on its marketing campaigns in FY1998 and FY1999 respectively and has been authorized to spend up to $13 million during FY2000.

As summarized in Table 1, the combination of new filing options and the continued enhancement of practitioner *e-file* has resulted in significant growth in electronic filing over the past thirteen years.

Table 1

Individual IRS *e-file*
(In Thousands)

Year	Pratictioner	TeleFile	On-Line	Total
1986	25			25
1987	78			78
1988	583			583
1989	1,161			1,161
1990	4,204			4,204
1991	7,567			7,567
1992	10,919	125		11,045
1993	12,334	149		12,482
1994	13,502	519		14,021
1995	11,126	680	1	11,807
1996	11,971	2,839	158	14,968
1997	14,083	4,686	367	19,136
1998	17,668	5,955	942	24,580
1999	21,223	5,664	2,458	29,346

IRS e-file for Businesses

As indicated in Figure 2, in concert with the IRS launching electronic filing for individuals, similar programs were made available to businesses beginning in the late-Eighties. Although not growing as fast initially as its individual counterparts, the electronic filing and payment options available to businesses began to take off in the mid-Nineties.

In 1988, the IRS introduced its first electronic filing program for businesses when it began accepting Schedule K-1s as well as Forms 1041 and 5500. By calendar year 1998, the IRS received 2.2 million Schedule K-1s (Form 1065) and 1.3 million Schedule K-1s (Form 1041) electronically. In 2000, the IRS will also begin accepting Forms 1065 electronically. The following year large partnerships with more than 100 partners will be required to file electronically under the provisions of the Taxpayer Relief Act of 1997.

1994 was turning point for IRS' electronic filing programs for employers. In that year, the IRS introduced electronic filing for Forms 941, the Employers' Quarterly Federal Tax Return. The initial program permitted reporting agents, such as payroll service providers, to file electronically on behalf of their clients. After a first year volume of 15,606 returns, the program grew to 856,579 electronically-filed Forms 941 in 1998. In 1997, the IRS expanded the filing options available to employers with the pilot of Form 941 TeleFile. This program allows small businesses to file their quarterly employment returns using a touch-tone telephone. The IRS launched the program nationwide in 1998 and received 756,080 returns the first year. The On-Line filing of Forms 941 is the latest filing option that the IRS is developing for employers. It is scheduled to be implemented April 2000.

Recent receipts and future projections for IRS' *e-file* programs for businesses are shown in Table 2.

Figure 2

Key Milestones for Businesses IRS *e-file*

Year	Milestone
1988	Electronic filing of Schedule K-1s
1988	Electronic filing of Form 1041
1988	Electronic filing of Form 5500
1992	TaxLink begins for payments
1994	Electronic filing of Form 941
1996	EFTPS becomes operational
1997	Form 941 TeleFile piloted
1998	Form 941 On-Line Filing piloted

Table 2

Business IRS *e-file*
(In Thousands)

Return	CY 1998 Actual	CY 1999 Estimated
Form 941 *e-file*	857	1.304
Form 941 TeleFile	756	953
Form 1041	1,024	1,143
Schedule K-1 (1041)	1,301	1,408
Schedule K-1 (1065)	2,172	2,321

Electronic Payment

While expanding its electronic filing programs for businesses, the IRS has also been automating the payment process. In 1992, the IRS embarked on a voluntary pilot referred to as TaxLink which automated the payment of Federal Tax Deposits (FTDs) by employers. Through this system, businesses could remit their deposits either through an ACH debit or credit. In 1994, electronic payments got a tremendous boost with the passage of NAFTA. This legislation mandated that 94 percent of all FTDs be deposited electronically by 1999. The U.S. Department of Treasury's Financial Management Services supported by the IRS, competitively contracted with two large financial institutions, First Chicago and NationsBank, to deploy the Electronic Federal Tax Payment System (EFTPS) as a more rigorous and complete replacement to TaxLink. By using EFTPS, taxpayers can make their deposits over the telephone or using a personal computer, eliminating the need for paper FTD coupons, checks or trips to the bank. Taxpayers have made nearly $2.9 trillion in tax deposits electronically since the government established EFTPS in November 1996. 2.6 million businesses are now enrolled in the Hammer Award winning EFTPS system. During FY1999, taxpayers made over $1.3 trillion in tax deposits through EFTPS which accounts for over 89 percent of all federal tax deposits.

Electronic Information Services

In 1996, the IRS launched the Digital Daily, a worldwide web site home page (www.irs.gov) and TaxFax, a faxback form and information service. A growing number of taxpayers are now getting the tax information they need from the IRS website where over 5,000 tax products are available including IRS forms, instructions and publications. Use of the website has skyrocketed in recent years. During Fiscal Year 1999, the IRS home page received over one billion hits for the first time ever, doubling the volume of the prior year.

To help tax professionals help taxpayers, the Tax Professional's corner has been added to the website. It provides advance notice of revenue rulings, procedures and other tax law items; news and administrative information for tax professionals; and information on workshops and how to become an Electronic Return Originator. By working with industry and using CD-ROM technology, the IRS has also been able to expand the distribution of tax forms, publications and other information. Through the "Corporate Partnership Program", the IRS is working with large corporations that make tax information available to their employees on their internal networks. Furthermore, the IRS is providing answers to taxpayers' questions via Internet e-mail. Taxpayers across the country and overseas can e-mail the IRS with tax law questions.

Taxpayer Acceptance of
ETA Products and Services

In charting a path for the future, it is not only necessary to understand the evolution of the Electronic Tax Administration program up to this point, but it is also critical to acquire a better understanding of taxpayer characteristics and their attitudes toward ETA products and services. The questions that need to be asked include among many others: Why do taxpayers file electronically? Why don't they file electronically? Who is filing electronically? and, What do taxpayers think of ETA products and services?

Taxpayer Benefits

Why do taxpayers file electronically? For years, the success of IRS *e-file* has been attributed to the demonstrated benefits that it provides to taxpayers:

- It's the fastest way to get refunds. Refunds are received in half the time - even faster with Direct Deposit.
- Its accuracy rate of 99 percent reduces the chance of getting an error notice from the IRS.
- It provides an acknowledgment that the return has been accepted within 48 hours by the IRS.
- It provides privacy and security.
- It allows taxpayers in 35 states and the District of Columbia to file their Federal and state tax returns simultaneously.

In addition, a certain segment of the taxpaying population has been willing to pay extra for receipt of their funds in 3 to 5 days via a check printed at the preparer's office. This willingness launched the Refund Anticipation Loan Program by several major banks. The Federal tax refund collaterizes these loans. Barring any detection of fraud or offsetting liabilities (past due student loan, past due child support, outstanding tax liability), the refund is direct deposited into the lending institution within 10 to 21 days.

Taxpayer Demographics

Who is filing electronically? To answer that question, the IRS District Office of Research and Analysis, Southwest District, developed a National Profile of IRS *e-file* users in 1997. Their analysis found three distinct *e-file* market segments consisting of :

- Young, low-income, low-refund TeleFilers;
- A little older, a little better off, high-refund, earned income credit recipient, Practitioner *e-filers;* and
- Older, well-to-do, large-refund, complex tax return, On-Line filers.

Principle observations from their analysis for these three groups included:

TeleFile

- preferred by the younger age group of 18 to 29
- has the lowest mean adjusted gross income of all methods of filing
- largely filed by single individuals
- most refunds are under $500
- are the least complex returns
- have a substantial loyalty to using TeleFile, with 78 percent who maintain eligibility continuing to file that way

Practitioner *e-file*

- preferred by a slightly older age group - in the 18 to 29 and 30 to 44 age groups
- have a slightly higher mean AGI than TeleFile
- tend to have a disproportionately large percentage of head of household filers
- tend to have more dependents than any other filing method
- with an average refund of $1,910 *e-file* returns have the second highest (after On-Line) average refund
- more frequently claim the earned income tax credit
- tend to use paid preparers

On-Line

- tend to be older with the majority of On-Line Filers in the 30 to 44 age group
- have the highest AGI of all methods of filing
- tend to file with a filing status of married filing joint
- have more dependents than any other method of filing except Practitioner *e-filers*
- have the highest average refund ($2,041)
- tend to have complex returns, with multiple schedules attached

Taxpayer Attitudes

Finally, why don't taxpayers file electronically?, and what do taxpayers think about ETA products and services? In 1998, Russell Marketing Research, Inc. conducted a study of taxpayers' attitudes regarding electronic filing to assist the IRS in the development of future ETA products and effective marketing strategies. Based on their research, they reached six general conclusions regarding taxpayer attitudes:

- **Taxpayers and Technology:** Taxpayers are ambivalent toward technology accepting it conceptually and in some everyday forms but still wary of it particularly when it comes to personal finances.

- **ETA Product Awareness:** When taxpayers are asked to think of possible methods of filing taxes, they tend to think first of the method they personally use with paper methods dominating awareness and usage methods. However, when taxpayers are asked which methods they recall seeing or hearing advertising for, they tend to think more of the electronic products.

- **ETA Product Usage Consideration:** Although only 20 percent of taxpayers say that they used any of the electronic methods in the past tax year, the potential usage of these products is broad:
- 71 percent of taxpayers would consider using one of the three IRS *e-file* methods with Practitioner *e-file* the leader at 47 percent, followed by On-Line Filing at 41 percent, and TeleFile at 34 percent.
- In addition, when asked about usage after hearing a description of each product, a majority of taxpayers (54-56 percent) say they would be at least somewhat likely to use Practitioner *e-file* or TeleFile in the future, while roughly one-third (35 percent) say they would be at least somewhat likely to use On-Line Filing.

Diagnostic Evaluation of Each ETA Product: Taxpayers were asked to evaluate each product based on both usage/nonusage generally and product descriptions specifically. Looking across these various diagnostic measures, the study concluded that:

■ TeleFile's virtues are its "speed" (a speedy refund) and "ease/convenience". It is not being used mainly because of "lack of understanding" of it and a concern about "lack of security" (both in privacy and accuracy). There was only one substantial suggestion for improvement of this product: to expand eligibility for it.

■ On-Line Filing's chief advantage is also "speed" (speed in filing). Its disadvantages are "cost", "the lack of a PC", and the method's "lack of security". This method also had only one clear suggestion for improvement: to "lower cost".

■ Practitioner *e-file's* advantages range from "speed" (a speedy refund), to "safety/accuracy" and "ease/convenience".

   Reasons for not using relate less to its weaknesses (though "cost" is an issue) and more to a preference for other methods (particularly paper methods). Like On-Line Filing, the only substantial suggestion for improvement of this product was to make it less costly.

The Market Segmentation: The study yielded four distinct taxpayer attitudinal segments: Technology Advanced, Pressured Technology Users, Experimental Hesitators and Technology Challenged. These groups exist along a continuum of tech-leader to tech-follower which roughly approximates the "innovator" continuum of product adoption theory. The two tech-forward segments appear to offer the greatest immediate potential for ETA because of their awareness and consideration of ETA products. However, there also appears to be near-term potential as well in the fourth group (Challenged) who might be moved into greater usage of electronic filing by a desire for speedy refunds.

In 1999, Russell Marketing conducted another updated wave of attitudinal research and identified the following most recent trends:

■ **Taxpayers & Technology:** 1999 Attitudinal Tracking results show that taxpayers are still ambivalent toward technology (as they were in 1998), but are starting to accept it more as their usage of specific technologies increases.

   ■ We saw greater acceptance of technology this year in the increases in respondents who agreed with statements characteristic of a technological "leader" and in the decreases in respondents who agreed with the technological "follower" statements.

   ■ It was in Western region that we saw the greatest improvement in the technological "leader" attitudes, but there were improvements in all regions in three tech "follower" attitudes related to ETA products.

   ■ The improvement in attitudes may be linked to the sharp increases we found in usage of many of the specific technologies covered in the study — especially use of the Internet, telephone banking, and e-mail.

■ **ETA Product Awareness and Usage:** This year, the awareness and usage measures showed significant increases in mentions of ETA products — although the ETA gains were largely driven by the On-Line Filing method.

■ **ETA Product Consideration:** Although only 20 percent of the taxpayers in this study said they used any of the electronic methods in the past year, the potential for usage of these products is far higher — a net of 80 percent of the taxpayers (vs. 71 percent last year) said that they would consider using one of the three methods.

- **Market Segmentation:** Post-classifying this year's respondents into a modified version of the segmentation model used in 1998, we find that our four cluster groups are changing in size — with significant movement out of the least-technologically oriented of the segments and into the more tech-forward groups.
  - Two waves of research now both clearly show that the two tech-forward segments offer the greatest immediate potential for
  - ETA, but there also appears to be near-term potential in a third group (the "Downscale Technology-Challenged").
  - There was increasing interest in all ETA products in all groups — although the most significant changes still came mainly from the two tech-forward groups.

What the Future Holds in Store

Based on where Electronic Tax Administration stands today and the public's attitudes toward the program, it is clear that the potential exists for tremendous growth in electronic commerce in the years ahead. In order to tap that potential, however, ETA products and services must continue to evolve so that taxpayers prefer these over the traditional methods of calling and mailing. What will the systems of the future look like? As indicated below, one way of answering that question is to take a look at the attributes of the program today and how they will change in the future.

FIGURE 3

What the future holds in store for Electronic Tax Administration

Attributes	Today's System	Tomorrow's System
Filing Options	Practitioner *e-file*	Practitioner *e-file*
	Telefile	Telefile
	On-Line Filing	On-Line Filing
		Internet Filing
Signature Requirement	Paper Jurat	Electronic Authentication
Forms and Schedules	Most Accepted	All Accepted
		(to the extent practicable)
Payments	Payments mailed separately	Electronic Payments
	– Form 1040V	– Direct Debit/Credit Cards
Tax Notes	Paper Only	Electronic
Authorizations	Paper Forms	Electronic
Account Request	Paper or Telephone	Electronic On-Line Access

IRS *e-file* Projections CY 2000-2007

The following charts represent the official IRS projections for electronically filed individual and business returns as developed by the professional forecasters under the Assistant Commissioner (Research and Statistics of Income). The projections represent baseline extrapolations of current trends, existing marketing approaches, enacted legislation, and confirmed (or reasonably certain) IRS program changes. **However, the projections *do not* reflect the full impact of *all* of the initiatives contained in the Strategic Plan. At this time, the IRS does not have sufficient information to make reasonable projections for many of the future initiatives. As the IRS gains more experience with the impact of the enhancements reflected in the Strategic Plan, increases to the current projections are expected.**

Table 1, Calendar Year Projections of the Percentage of Individual Returns to be Filed Electronically 2000-2007 for the United States (in millions), illustrates the anticipated annual growth in IRS *e-file* returns as a percentage of total returns.

Table 2, Calendar Year Projections of Electronically Filed Individual Returns to be Filed 2000-2007 for the United States (in millions), provides a projected range of electronic filing volumes for each year for each *e-file* program. Based on differing assumptions and calculations, the projections range from an anticipated "middle ground" or likely scenario to a "more optimistic" scenario.

Table 3, Calendar Year Projections of Electronically Filed Business Returns and Related Schedules K-1 to be Filed 2000-2007 for the United States, includes volumes of Forms 940, 941, 1041, 1065 and some associated Schedules K-1 filed via magnetic tape, modem, floppy disk, and TeleFile.

Table 1

Calendar Year Projections of the Percentage of Individual Returns to be Filed Electronically 2000-2007 for the United States

(In Millions)

Year	Total Individual Returns	Total *e-file* Returns	*e-file* Percent of Total
1998 Actual	122.5	24.6	20.1
1999 Estimated	125.1	29.3	23.4
2000	126.9	33.6	26.5
2001	129.1	38.0 - 41.4	29.5 - 32.1
2002	130.7	41.2 - 45.6	31.5 - 34.9
2003	132.1	44.1 - 49.4	33.4 - 37.4
2004	133.5	46.8 - 52.9	35.1 - 39.7
2005	135.1	49.6 - 56.6	36.8 - 41.9
2006	136.9	52.5 - 60.4	38.4 - 44.1
2007	138.6	55.5 - 64.3	40.0 - 46.4

Calendar Year Projections of Electronically Filed Individual Returns to be Filed 2000–2007 for the United States (in millions)

Table 2				
Year	Tele-File	On-Line Filing	Practitioner e-file	Total Individual e-file
1998 Actual	6.0	0.9	17.7	24.6
1999 Estimated	5.7	2.5	21.2	29.3
2000	5.9	4.0	23.7	33.6
2001	6.1 - 6.5	5.2 - 6.1	26.7 - 28.7	38.0 - 41.4
2002	6.3 - 6.9	6.1 - 7.4	28.7 - 31.3	41.2 - 45.6
2003	6.5 - 7.2	7.0 - 8.4	30.6 - 33.7	44.1 - 49.4
2004	6.7 - 7.6	7.7 - 9.2	32.4 - 36.1	46.8 - 52.9
2005	6.9 - 8.0	8.6 - 10.2	34.2 - 38.5	49.6 - 56.6
2006	7.1 - 8.4	9.4 - 11.1	36.0 - 40.9	52.5 - 60.4
2007	7.4 - 8.8	10.3 - 12.1	37.8 - 43.4	55.5 - 64.3

Calendar Year Projections of Electronically Filed Business Returns and Related Schedules K-1 to be Filed 2000 – 2007 for the United States

Table 3										
Category	Actual 1997	Actual 1998	Estimated 1999	2000	2001	Projected 2002	2003	2004	2005	2006	2007
I. Type of Tax Return											
Form 940 Mag-Tape	448,221	521,436	590,937	668,000	739,800	811,800	883,900	956,200	1,028,600	1,101,200	1,173,800
Form 941 Mag-Tape	1,719,051	1,649,487	1,435,000	1,527,400	1,741,400	1,976,300	2,248,500	2,541,900	2,811,500	3,091,900	3,378,200
Form 941 E-File	519,409	856,579	1,304,300	1,589,000	1,797,100	2,094,800	2,337,400	2,507,900	2,673,800	2,824,700	2,977,400
Form 941 Tel *e-file*	165,841	756,080	952,600	962,400	967,800	970,300	972,800	977,400	983,400	988,400	993,800
Form 1041	931,252	1,024,425	1,142,800	1,261,200	1,379,500	1,497,900	1,616,300	1,734,600	1,853,000	1,971,400	2,089,800
Form 1065	0	0	0	3,200	8,000	10,700	16,000	21,900	28,300	35,300	43,200
II. Type of Information Document											
Sch. K-1 (Form 1041)	1,240,171	1,300,872	1,408,300	1,499,700	1,591,000	1,682,300	1,773,600	1,864,900	1,956,200	2,047,500	2,138,800
Sch. K-1 (Form 1065)	2,137,497	2,171,875	2,320,700	4,407,900	9,176,900	9,579,400	10,096,900	10,635,300	11,189,100	11,768,300	12,376,500

ETA Strategic Planning Process

ETA Strategic Planning Process

Developing the first-ever Strategic Plan for Electronic Tax Administration in 1998 was a significant undertaking. Although plans had been developed to increase electronic filing in the past, none had gained the widespread acceptance that was necessary to move the program forward. To address this shortcoming, during 1998, ETA engaged in a comprehensive strategic planning process to prepare the first version of *A Strategy for Growth.* ETA strived to involve as many of its internal and external stakeholders as possible in the planning process including ETA employees, managers and executives, other IRS organizations especially the Chief Information Officer area, the Commissioner and other IRS executives, Treasury and OMB officials, GAO and Congressional staff, the Electronic Tax Administration Advisory Committee (ETAAC), and other professional organizations. In preparing the plan, ETA also conducted rigorous external, organizational, systems, and market analysis. Despite these efforts, ETA recognized when it issued *A Strategy for Growth* that it had just begun its strategic management process.

ETAAC Recommendations

In their June 1999 report to Congress, the ETAAC referred to the development of an ETA Strategic Plan in six months as a notable achievement and called upon the IRS to build on this good start by a sustained effort to mature the Strategic Plan. Specifically, the ETAAC recommended that the IRS align the ETA Strategic Plan and the IRS Strategic Plan particularly in the information technology (IT) area and document a process for identifying new projects, refining and assessing annual performance measures, and updating the Strategic Plan to move forward toward the achievement of goals.

The ETAAC believed that the articulation of the strategic planning process for ETA would demonstrate that the Strategic Plan is a living document, one that is adjusted to take results achieved and new experiences into account, and is changed as needed. Specifically, they recommended that the ETA planning process be refined by:

- Implementing a process for continual Strategic Plan refinement with an annual revision to the Strategic Plan to include the following elements:
  - internal efforts such as market research, technology assessment, issuance of ETA RFP and RFA, budgeting and stakeholder outreach;
  - development of annual performance measures;
  - annual monitoring and assessment of the selected performance measures; and
  - formal assessment of pilots implemented during the year.

- Issuing annual Strategic Plan updates that adjust for past performance and introduce necessary changes.
- Outlining the process for creating operational plans that accomplish the strategies, tactics and projects in the Strategic Plan.

Since the Strategic Plan has been described as a living document, it is only fitting that strategic planning within Electronic Tax Administration should also be viewed as an evolving process. Based on suggestions made by the ETAAC and other stakeholders, ETA has begun to document and refine its planning process in the following three critical areas:

- Integrating the ETA Strategic Plan with Servicewide Plans;
- Issuing Annual Updates to the Strategic Plan; and
- Continually Refining the Strategic Planning Process for ETA

Integrating the ETA Strategic Plan with Servicewide Plans

In the December 1998 issuance of *A Strategy for Growth,* the IRS acknowledged that the ETA Strategic Plan must be consistent with the IRS Strategic Plan and the Modernization Blueprint and that it should feed into IRS' budget and operations planning processes. In its June 1999 report to Congress, the ETAAC took this concept one step further by beginning to articulate the relationships between the ETA strategic planning process and the other planning processes that are underway within the IRS. Documenting and understanding the major IRS planning processes are critical to the successful integration of ETA within Agency-wide plans. These strategic and operational planning processes include the IRS Strategic Plan, the IRS Budget, Operations Plan, Modernization Blueprint, and Request for Information Services.

IRS Strategic Plan: This is the Servicewide plan which sets the highest level strategies for the IRS. Commissioner Rossotti has clearly articulated his vision and goals for the IRS and the Agency is currently in the process of establishing a comprehensive strategic planning and budgeting process. Although this process is not yet complete, ETA has gone ahead and aligned its mission, goals and key strategies with the IRS' plans for the future articulated by the Commissioner. In the first issuance of *A Strategy for Growth,* ETA described how its mission is consistent with the new mission statement for the IRS and will continue to do so in future issuances. In addition, ETA will utilize *A Strategy for Growth* as the basis for its input into IRS'Strategic Plan once the new strategic planning and budgeting process is in place.

IRS Budget: The IRS budget process normally begins at least eighteen months prior to the start of the fiscal year. For example, ETA identified its resource needs in April 1999 for the President's FY2001 budget submission. These needs were then rolled up into the IRS budget request which was submitted to Treasury for review in early summer and subsequently to the Office of Management and Budget in the fall. The President will formally submit his FY2001 Budget to Congress next year in the January - February time frame. Congress will then consider this request and subsequently pass an Appropriations bill which will set the level of funding for the IRS and its Electronic Tax Administration programs for the fiscal year beginning October 1, 2001.

Operations Plan: The IRS is also in the process of refining its operations planning and review process which includes the development of an Operations Plan for FY2000. The Operations Plan sets operations-specific strategies needed to achieve the Servicewide strategies. It contains high level goals on a function-by-function basis and includes tactical actions for organizations such as Electronic Tax Administration. Through this process, ETA will refine its annual goals and measures consistent with IRS'Balanced Measures approach focusing on customer satisfaction, employee satisfaction and business results including quality and quantity. ETA's program guidance for FY2000 was issued to the Regions in June 1999; the guidance placed emphasis on the expansion of practitioner IRS *e-file* and participation in EFTPS with a goal to increase taxpayer and ERO satisfaction.

Modernization Blueprint - PRIME Contract: In conjunction with the award of the Modernization contract to the PRIME integrator, a standard methodology is allowing IRS to follow a disciplined, repeatable process to design and deploy modern IT systems that deliver consistent and measurable results. IRS' PRIME contractor is adapting the Catalyst methodology to the IRS environment including the use of Integrated Product Teams and providing strong program management, engineering and integration practices. CSC Catalyst is Computer Sciences Corporation's approach to initiating, motivating, designing, implementing, managing and coordinating changes in large organizations. It provides the best proven methods with innovations appropriate to a rapidly changing business and technical environment.

Request for Information Services (RIS): In addition to the Catalyst methodology employed for IT Modernization, the RIS process is also an integral part of the overall planning process within the IRS. Through this process, systems changes requested by the Operations side of the IRS are identified and prioritized for implementation for future filing seasons. Because of the need to accelerate this process for Y2K, all RISs for the 2000 filing season including those involving ETA program changes were submitted by February 28, 1999 in order to allow sufficient time for Unit Testing, Systems Acceptability Testing (SAT) and End-to-End Testing by the end of the year.
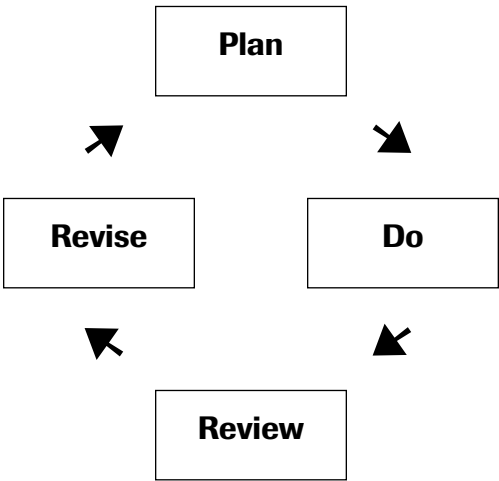
Issuing Annual Updates to the Strategic Plan

With the issuance of the first-ever Strategic Plan for Electronic Tax Administration in December 1998, it quickly became evident that ETA needed to establish a clearly defined, annual process for controlling, evaluating and approving recommended changes to the Strategic Plan and for recognizing and responding to strategic and critical issues as they are identified on an ongoing basis. To fulfill this need, ETA decided to follow the same basic management model (illustrated in Table 1) that is being used for implementing the Balanced Measures approach under Leading in the New IRS:

Under this model, ETA will operationalize its strategies and tactics articulated in the Strategic Plan through the *e-file* programs, pilots and marketing initiatives that are implemented during the filing season. The results obtained during the filing season will be reviewed. Assessments will also be taken of what has changed internally through such efforts as the Integrated Products Teams, as well as externally through market research and through feedback from the ETAAC and other stakeholders. Based on this input, a revised Strategic Plan will be drafted and provided to internal and external partners for comment prior to reissuance in December.

ETA decided to apply the above model on a calendar year as opposed to a fiscal year cycle for several reasons. Updating the Strategic Plan on a January - December time frame will enable ETA to more closely align with many of the other major planning processes underway within the IRS. For example, issuing the annual update to the Strategic Plan in December:

- allows ETA sufficient time to thoroughly evaluate both the results of the filing season and the recommendations made by the ETAAC in its June report to Congress, as well as the suggestions made by other stakeholders;
- enables ETA to utilize its work with the PRIME contractor to update the tactical or operations aspects of the Strategic Plan;
- ensures that an updated Strategic Plan is available for developing next year's budget submission; and
- also ensures that an updated Strategic Plan is available for prioritizing ETA's Requests for Information Services.

Table 1

Annual ETA Planning Process

TABLE 2

Strategic Plan Update

Period	Activity
January - April	ETA implements filing season: ■ e-file marketing launched ■ e-file programs operational ■ e-file pilots conducted
April - May	ETA assesses filing season: ■ analyzes results/measures ■ evaluates pilots ■ examines market research
May - June	ETA issues RFA/RFP for next filing season
June - August	Integrated Product Teams: ■ validate business requirements ■ update tactical plans ■ ensure consistency with Modernization Blueprint
June - August	ETA analyzes Strategic Plan comments: ■ ETAAC report to Congress ■ other stakeholder suggestions
July - August	Electronic Tax Administration: ■ evaluates proposed changes to the Strategic Plan ■ evaluates/prioritizes new initiatives ■ finalizes filing season plans/pilots
September	ETA drafts Strategic Plan update: ■ ensures consistency with IRS Strategic Plan ■ clears through National Office executives ■ provides to ETAAC members
October	ETA finalizes Strategic Plan update: ■ revises IRS e-file projections ■ assesses Fiscal Year ending data ■ reviews Strategic Plan update with ETAAC ■ clears through Treasury and OMB
December	ETA issues Strategic Plan update: ■ solicits public comment ■ used as basis for budget formulation ■ used in RIS prioritization process

Table 2 illustrates the more detailed schedule that was used for issuing this first update to *A Strategy for Growth.*

Continually Refining the Strategic Planning Process for ETA

Although ETA has taken several steps to better integrate the ETA Strategic Plan with Servicewide Plans and also to establish a schedule for issuing annual updates to the Strategic Plan, more needs to be done to better refine and document the overall planning process for ETA. Specifically, ETA is exploring further use of the Catalyst methodology to determine whether it can be used for the development of more detailed operational plans to include both IT and non-IT initiatives. In addition, ETA recognizes that in addition to its work with the PRIME and its RFA/RFP processes, it needs to re-examine the process currently used for conducting technology assessments and identifying new projects, as well as better articulating its partnerships with the private sector and other governmental entities. Subsequent refinements in these areas will be documented in the next issuance of *A Strategy for Growth.*